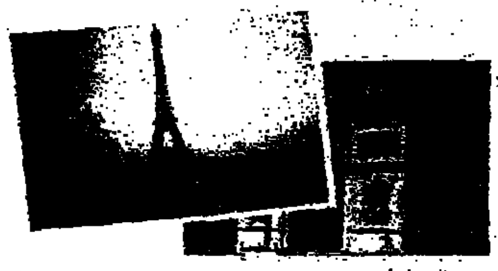
FINANCIAL TIMES

World Business Newspaper

TUESDAY JULY 16 1996

Mobile phones
Just how big are the health risks?
Technology, Page 11



French banking
The single market begins at home
Page 17

Hollywood
Digital effects upstage the stars
Page 16

Lebanon
Neighbours' strife threatens revival
Survey, Pages 25-28

OECD sees high jobless levels for next two years

Unemployment in the world's main industrialised countries will stay high for two more years at least, the Organisation for Economic Co-operation and Development forecast. Growing pay *inequalities*, especially in the US and the UK, will lead to "more *marginalisation*" of people, the OECD said. Page 18

Coca-Cola *showed few ill effects* from rival PepsiCo's $500m campaign to grab some of its market when it reported a 20 per cent rise in earnings per share in the second quarter. Page 19; Lex, Page 18

Ulster rift widens at Westminster: Differences between Britain's *two main political* parties over their approach to Northern Ireland widened as the *opposition* Labour party expressed dismay at the government's refusal to condemn Unionist politicians for last week's Orange march which led *to widespread violence*. Page 18

Lloyd's of London insurance market won an overwhelming endorsement for crucial parts of its recovery plan. *Special levies* on underwriting members will contribute £440m ($686m) towards financing of the recovery package. Page 6

Escom facing bankruptcy: Bankruptcy proceedings have been opened for the Escom holding company and other subsidiaries of the group, Germany's second biggest computer retailer. Earlier this month the group sought protection from creditors in *Vergleich* proceedings similar to US Chapter 11 rules. Page 19

Bonn moves on company reform: *Quoted* German companies would be able to buy back up to 10 per cent of their capital and stock options would be available to senior executives under legislation being drawn up in Bonn. Page 18; Editorial Comment, Page 17

60 die in Hindu stampede: *Sixty* Hindu worshippers were killed and scores injured in dawn stampedes in India as they gathered to celebrate a new-moon festival. Page 5

Siemens shrugs off slowdown: German electronics company Siemens announced an 18 per cent rise in third-quarter net profits despite a decline in domestic business. Page 19; Lex, Page 18

Sudanese refugees butchered: More than 90 refugees from Sudan's civil war have been slaughtered *by the fundamentalist Lord's Resistance* Army at a camp near the northern Ugandan town of Kitgum. Page 4

Kobe Steel, Japanese steel and construction equipment manufacturer, is to spend $33m to boost production of hydraulic excavators in China from *50 to 700 units a year by 2000*. Page 4

Beijing push to back Pyongyang: North Korea is to receive new economic and political support from China in an effort by Beijing to protect the troubled Pyongyang government from possible collapse. Page 5

Reliance Industries, India's biggest textiles and petrochemicals group, *claims it has a sound defence* against criminal charges of illegal share switching and substitution of company shares to certain *shareholders*. Page 5

Hercules crash kills 26: At least 26 people, including all four crew, were killed when a Belgian Hercules C-130 military cargo aircraft crashed at Eindhoven airport in the southern Netherlands.

Royal decree: The Prince and Princess of Wales were granted a decree nisi in a short hearing at the *High Court in London*. Unless either party appeals, the decree can be declared absolute in six weeks and a day.

135 feared dead in monsoon floods:

A woman on a makeshift raft tries to steer a course to *safety away* from a submerged hut in the village of Mairabari in the north-east Indian state of Assam, hit by *four days of* torrential monsoon rains. About 135 people are feared killed and some 1.9m have been made homeless in eastern India *and* Bangladesh by floods and landslides.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,454.42	(-56.14)
NASDAQ Composite	1,079.55	(-23.94)
Europe and Far East		
CAC40	2,029.51	(-21.04)
DAX	2,550.53	(+6.27)
FT-SE 100	3,698.3	(-30.0)
Nikkei	21,753.42	(+96.97)

US LUNCHTIME RATES

Federal Funds	5$\frac{3}{8}$%
3-mth Treas Bills: Yld	5.277%
Long Bond	87$\frac{3}{16}$
Yield	7.040%

OTHER RATES

UK: 3-mo interbank	5$\frac{13}{16}$%	(5$\frac{11}{16}$%)
UK: 10 yr Gilt	96$\frac{5}{8}$	(96$\frac{1}{2}$)
France: 10 yr OAT	106.16	(105.29)
Germany: 10 yr Bond	98.03	(98.08)
Japan: 10 yr JGB	97.5459	(97.9559)

NORTH SEA OIL (Argus)

Brent Dated	$20.17	(19.92)

GOLD

New York: Comex	$385.7	(384.4)
London: close	$383.7	(384.55)

DOLLAR

New York: lunchtime		
£	1.55075	
DM	1.51825	
FFr	5.14285	
SFr	1.25475	
Y	110.425	
London:		
£	1.5507	(1.5523)
DM	1.5184	(1.5226)
FFr	5.146	(5.1537)
SFr	1.2638	(1.2590)
Y	110.325	(110.65)

STERLING

DM	2.3546	(2.3625)
Tokyo close:	Y 110.50	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lis 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh18	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.50	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3300	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr12.00	Kuwait	Fils650	Portugal (mainland)	Es240	Turkey	L90,000
		Lebanon	LL3,000			UAE	Dh12.00

Last-minute change prompts health fears ■ Chubais recalled as chief aide

Yeltsin misses talks with Gore

By John Thornhill in Moscow

Russian president Boris Yeltsin yesterday increased his reputation for erratic behaviour and intensified concerns about his *health* when he called off a meeting with Mr Al Gore, the US vice-president, at the last minute.

Mr Gore's motorcade had been warming up to take him to the *meeting* when it was cancelled less than an hour before it was scheduled. The vice-president, in Moscow to lend support to the Russian reform effort, appeared *disconcerted* by the diplomatic snub and reacted testily to reporters' questions.

Mr Yeltsin's aides tried to dismiss the embarrassing incident by saying the exhausted president had decided to take a two-week working vacation at a Moscow sanatorium to recover his strength and would meet Mr *Gore today*.

Despite growing concerns about his capacity to complete a four-year term, Mr Yeltsin took steps yesterday to form a new team for his second administration. In an extraordinary move, he appointed Mr Anatoly Chubais, the leading reformer sacked in January, as head of the presidential administration and chief presidential aide.

Mr Yeltsin's staff played down *fears* that he had *suffered* a further relapse in health after a gruelling re-election campaign but said he would have a medical examination. "If any medical procedures are necessary, doctors will make them," the president's press secretary said.

Mr *Thomas Pickering*, the US ambassador, attempted to smooth over the affair. "I've been in Russia a long time. I've learned to expect that things change here," he said. "I wouldn't read anything unusual into this."

Mr Yeltsin, 65, has developed a *reputation for unpredictability* after appearing to be drunk in public on several occasions and failing to disembark from his aircraft to greet the Irish prime minister in 1994.

Since being resoundingly re-elected on July 3, Mr Yeltsin has *only been seen in carefully tailored* television footage, which has shown him to be stiff and hesitant in speech. But he has recovered from previous health problems with remarkable vigour and appears to be summoning his strength for his inauguration on August 9.

In the run-up to the presidential elections, Mr Yeltsin dismissed Mr Chubais as *first deputy* prime minister in charge of the economy, blaming him for the social hardship that has accompanied Russia's *transformation to a market economy*.

But Mr Chubais played a vital role in organising Mr Yeltsin's re-election campaign and appeared to strike up a close working relationship with Mrs Tatyana Dyachenko, Mr Yeltsin's daughter, who is one of few people who currently has access to the president.

Mr Chubais, who became the *target of some virulent* communist propaganda, had previously said he had no intention of returning to the political arena and was pursuing plans to set up *his own business*.

But his return to the Kremlin has cheered Russian liberals, who believe he will give much-needed impetus to the reform agenda. Mr Chubais replaces the hardline Mr Nikolai Yegorov, who was one of the chief advocates of using force to crush Chechnya's independence bid.

The concerns over Mr Yeltsin's health overshadowed *a series of* meetings in Moscow yesterday between senior US and Russian officials. But the two sides are expected to announce a package *of initiatives today to promote* investment in Russia.

US vice-president Al Gore with Russian prime minister Victor Chernomyrdin in Moscow yesterday Picture: AP

The return of Chubais, Page 2

Europe vows to act on US anti-Cuba law

EU foreign ministers agree possible reprisals as Clinton urged to suspend key clause

By Lionel Barber in Brussels

The European Union last night vowed to retaliate against the US unless President Bill Clinton suspended a key provision in the anti-Cuba Helms-Burton Act.

Mr Clinton has until midnight tonight to decide whether to suspend Title III of the act, which allows US citizens to sue companies "trafficking" in confiscated *Cuban property*.

The EU's response would be swift if Mr Clinton did not waive the provision, Mr Jacques Santer, president of the European Commission, warned.

EU foreign ministers in Brussels agreed a list of possible reprisals, including visa restrictions, an appeal to the World Trade *Organisation's dispute settlement* body and steps to neutralise the effects of the act outside the US.

They also agreed to set up a list of US companies seeking damages against European groups.

Mr Santer said he did not expect Mr Clinton – under pressure from domestic opponents of the Cuban regime ahead of the November presidential election – to exercise his waiver. However, *Mr Clinton* was also facing pressure from domestic business groups opposed to the act.

Sir Leon Brittan, EU trade commissioner, yesterday repeated appeals to Mr Clinton to waive the parts of the act targeting European companies. But he *added: "I don't see this as a crisis* or a trade war but as the identification of measures to protect the EU against unjustified extraterritorial legislation."

EU *foreign ministers* said last night diplomats would make "the necessary preparations for urgent Community and co-ordinated national action" if Mr Clinton failed to respond to Europe's appeals.

But despite widespread *irritation*, the mood in Brussels was to contain the row. "This is a rift, not a crisis," said Mr Malcolm Rifkind, UK foreign secretary.

Britain is pressing its EU partners to adopt legislation similar to its own 1980 Protection of *Trading Interests Act*. This protects British companies against punitive damages awarded in the US courts, allowing companies to countersue in courts in Europe, but this *provision* has *never* been invoked. Canada has a similar law.

Another option is to ask the WTO dispute panel for a ruling *on the US law. But some officials* believe the US might call the EU's bluff and invoke the WTO's national security exemption. "We think this would be a reflection of US weakness, but we are prepared for it happening," said one *official*.

Individual member states could also invoke visa restrictions against US nationals, but British officials said they were reluctant to employ copycat tactics which were provocative and disproportionate. Last week, the US announced that nine executives and directors of Sherritt International, the Canadian mining group, would be barred from entering the US from late August under Title IV, another provision of the act.

US removes sanctions, Page 4
UK beef ban not lifted, Page 14

US shares tumble on concern over weak earnings

By Lisa Bransten in New York

US share prices tumbled more than 160 points yesterday afternoon on concerns about declining liquidity in the market and weak corporate earnings, particularly in the technology sector.

The Dow Jones Industrial Average was down 161.05 at 5,349.51 at the preliminary close – a fall of 2.92 per cent.

The Nasdaq composite, which is about 40 per cent technology shares, was off 43.13 at 1,060.36, or 3.91 per cent, putting the index on course to close below 1,100 for the first time since March 28.

In the wake of yesterday's decline the Nasdaq has dropped more than 15 per cent, far more than the 10 per cent correction *many analysts have been* predicting since spring. The Dow has dropped over 7 per cent from its high of 5,778 set in late May.

The Dow had been lower *through the morning* but was stable with a loss of about 50 points. Just before 2pm, however, a sell programme took the index down 65 points, sending the blue chip index below the 5,400 mark, according to Birinyi Associates.

Mr *Michael Metz, the chief* equity strategist at Oppenheimer & Co who has been among the most bearish on Wall Street, said that the market was beginning *to look oversold*. "Just as the market fed on itself on the upside earlier this year, the market decline is feeding on itself."

Earnings reported yesterday were mixed, but the market got a scare as Applied Materials, a semiconductor equipment maker, warned *that* its third-quarter earnings would come in below analysts' expectations.

Mr Anthony Conroy, head of equity trading at Bankers Trust, *attributed yesterday's slide to a* bearish tone that has gripped the market since the Dow dropped nearly 115 points on July 5.

Even Chrysler, the US carmaker *which reported a big* jump in second-quarter earnings on Thursday, has fallen sharply since then on worries that such growth was not sustainable.

World stocks, Page 40

Doubts grow as erratic Dole fails to cut Clinton poll lead

By Jurek Martin in Washington

Mr Bob Dole is in trouble. His apparent inability to get across a consistent message in the race for the White House is undermining his campaign and prompting *some* Republicans to be openly doubtful that he can catch US president Bill Clinton.

An erratic and often inarticulate campaigning style has drawn *Mr Dole into controversies* ranging from abortion to tobacco, and strained his relationship with *black* Americans. Leaving the Senate last month was meant to improve his popularity, *but the* deficit appears to be growing.

The latest national opinion poll for MSNBC, released *in* association with yesterday's launch of the cable news venture between Microsoft *and* NBC, found the president's lead rising and his approval rating constantly respectable.

Mr Clinton led Mr Dole by 54 per cent to 30 per cent, 7 points more than a comparable survey for NBC last month. A 54 per cent *majority approved of the* way the president was doing his job, a figure consistent with most other surveys.

The poll suggested that Mr Dole would fare *even worse if* Mr Ross Perot of the Reform party was in the race. The entry of Mr Perot, the 1992 independent candidate, is now more likely given his virtual declaration last week.

Mr Dole had appeared to be narrowing the gap to the 15-point range two or three weeks ago when Mr Clinton was bedevilled by Whitewater and related prob*lems, such as the controversial* acquisition in 1993-94 by the White House of FBI personnel files.

The latest prominent Republican to criticise Mr Dole was Senator Al D'Amato of New York in a newspaper interview yesterday. Mr D'Amato, a co-chairman of the Dole campaign, echoed retired General Colin Powell in *lamenting the "unique lost opportunity"* of the candidate's refusal to address the annual convention of the National Association for the Advancement of Colored People *last* week. *Mr Dole* subsequently invited further criticism by claiming that he was being "set up" by the NAACP, the oldest black civil rights organisation. *Mr Clinton's* speech to the NAACP last Wednesday was rapturously received.

Mr Dole's message this week is intended to be about education. But he finds it difficult to stick to a focused *script* and is *forever* being sidetracked into controversial off-the-cuff remarks.

Meanwhile Mr Clinton, a superior campaigner in any case, has the luxury *of a united* Democratic party behind him.

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Germans urged to take a risk for jobs

Andrew Fisher on attempts to bring about a radical change in investment mentality

Germans must be tired of hearing how they dislike taking risks, but politicians are increasingly repeating this message as it becomes clear that only a radical change in the country's investment mentality is likely to cure its economic weaknesses.

With unemployment stuck at around 4m people, the need to channel funds into areas that create growth, jobs and profit has become increasingly apparent.

"Germans are starting to understand that job growth only occurs in smaller companies," says a Frankfurt banker. "It does not happen through some new recipe at the big companies."

The argument seems to have got through to the government loud and clear. Not only is its latest savings and welfare reform package – now inching its way through parliament – aimed in large part at helping job creation, but planned steps to improve the attractiveness of German financial markets are also part of a wider employment-oriented policy.

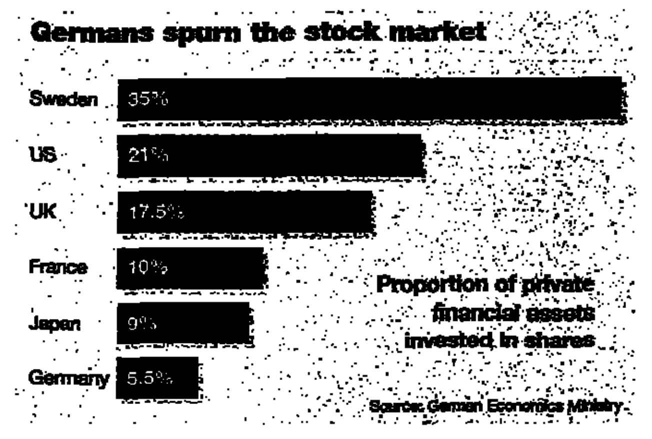
The subject of *Finanzplatz Deutschland* (Germany as a financial centre) is not being viewed in isolation, says Mr Hans-Peter Repnik, deputy head of the parliamentary group of the Christian Democrat-Christian Social (CDU-CSU) alliance which dominates the governing coalition. "It is embedded in the whole debate about *Standort Deutschland* (Germany as an industrial location)."

Thus, government plans to open up financial markets further and encourage risk capital through increased equity investment are tied in with concerns about jobs. "Statistics show that every job created by a start-up company creates four more elsewhere," Mr Repnik says.

A broad range of draft laws and proposals under discussion will deal with further capital market reforms, special funds for private pension provision and ways of encouraging more equity and venture capital investment.

"Compared with other countries, we are way behind in terms of share ownership throughout the population," Mr Repnik adds.

Like many political colleagues, he sees the need for changes in financial markets – primarily to help smaller companies – as essential to nourish future growth in jobs. "Between 1990 and 1995, Germany's *Mittelstand* [medium-sized companies] had a net growth in jobs of around 1m, while the big companies showed a decline."



Together with moves to relax tight labour laws, encourage more part-time working, ease the social security financing burden and cut high tax rates, Mr Repnik hopes the encouragement of more risk capital to back new ideas will give the economy a powerful job-creating stimulus.

"The whole subject of risk capital is viewed by the government as highly important," says Mr Johannes Ludewig, a state secretary at the economics ministry. "It is not seen as an isolated part of the economic landscape, but as part of an overall concept about how to create jobs and growth."

He is concerned that the average age of companies coming to the German stock market is 55 years, against 14 in the US and eight in the UK. In today's fast-moving, increasingly globalised economy, access to equity capital through the market is essential for many companies to help them grow.

The main actions the government is proposing are:

● Changes to be included in the third Financial Markets Promotion Law, to take effect in 1998. The 30-year liability period for prospectus contents and investment advice will be reduced to around five years. Foreign language prospectuses will be permitted. Mutual funds will be allowed to issue closed-end funds and umbrella funds (funds-of-funds) and pursue more flexible investment policies (by using money market funds for their own cash management and over-the-counter options). Property funds will be able to invest in property companies as well as properties.

● Other legal changes. Minimum capital requirements for securities issuing houses will be cut to encourage specialisation, especially in smaller stocks. Special pension-oriented funds, with a strong emphasis on equities, are planned to encourage individuals to make more private provision. Further off, though widely discussed, are moves to promote Anglo-Saxon type pension funds – which invest heavily in equities for long-term returns – by putting them on the same tax footing as companies' internal pension reserves.

● Tax reforms. Cuts in personal and corporate tax rates are being studied by the government which plans to remove such write-offs as investment in container ships. "If we can really cut tax rates, not just marginally, this would be the best thing we could do," asserts Mr Ludewig. Tax hurdles discouraging some small companies from coming to the bourse will also be lowered.

Yet, welcome though all these and other planned measures may be, they will not be enough on their own to generate a big new wave of equity and venture capital investment. Investors, especially institutions, also have to become more equity-minded and a broader, more liquid, stock market created.

● Thus, moves are under way to develop a new market for thriving, capital-hungry smaller companies. Deutsche Börse, which runs the Frankfurt stock and futures exchanges, will start this Neuer Markt next year. Ten companies – in the computer, multimedia, telecommunications and other sectors – are already keen to enter this market which will join similar operations in France and Belgium to form the EuroNM as a rival to Easdaq, soon to start in Brussels as a European version of Nasdaq, the US computerised exchange.

Mr Ludewig welcomed Deutsche Börse's efforts to help finance small, technology-oriented businesses. But, recalling his student days in California, where academia and business overlap, he said Germans were still too security-conscious and risk averse.

"You can see this in the number of traffic lights per kilometre in Germany. Nowhere else are they so high, especially in the US."

Editorial comment, Page 17

Greece drops veto on Turkish participation in aid programme

By Lionel Barber in Brussels

Greece yesterday lifted its long-standing veto on a multi-million dollar European Union financial aid programme to the southern Mediterranean and agreed to allow Turkey's participation.

The breakthrough came at a meeting of EU foreign ministers in Brussels. But the programme could still run into obstacles over Greece's dispute with Turkey regarding the sovereignty of the Imia islets in the Aegean sea.

The outline deal does not address Greece's opposition to Turkish access to Ecu200m ($250m) aid which is linked to last year's customs union with the EU – a sore point with the Ankara government.

The agreement is an early diplomatic victory for the Irish presidency which pressed the Greek government hard to drop its veto on the Meda regulation on aid to 12 countries in North Africa and the southern Mediterranean.

The Meda regulation includes a firm promise of $900m aid for 1996, with programmes to be assessed from September. The EU has promised a further $2.8bn for the years to 1999, but these sums have to be negotiated each year, and have been reduced from an earlier offer of $5.5bn.

The 12 aid beneficiaries are Algeria, the Palestinian authority, Cyprus, Egypt, Israel, Jordan, Libya, Malta, Morocco, Syria, Tunisia, and Turkey.

UK foreign minister Malcolm Rifkind (right) and his Dutch counterpart Hans Van Mierlo in discussion before yesterday's meeting in Brussels *Reuter*

Mr Theodore Pangalos, Greek foreign minister, announcing the gesture towards Ankara on Meda yesterday, said it depended on Turkey "agreeing to international laws" as set out in a joint declaration issued by EU foreign ministers.

Mr Pangalos added that Mrs Tansu Çiller, former Turkish prime minister who is foreign minister in the new Islamic-led coalition government, would have to agree to the statement during her visit to Ireland later this week. "This declaration shows Turkey cannot get away with infringements of international law," he said.

However, EU officials played down the idea of conditions being attached to the Meda agreement. The European Commission meanwhile rejected Greek efforts to tie its hands in the disbursement of Meda funds to Turkey.

The Council declaration strikes a balanced posture in the EU's relations with Greece and Turkey. Referring to the dispute over the Aegean islands, over which the two countries almost came to blows, the statement says:

"The Council recalls that relations between Turkey and the EU have to be based on a clear commitment to the principle of respect of international law and agreements, the relevant international practice, and the sovereignty and the territorial integrity of the Member States (EU) and Turkey. It considers that disputes should be settled solely on the basis of international law."

Competition key to telecom deal, says Van Miert

Mr Karel Van Miert, European competition commissioner, said yesterday that "effective competition" in the German and French telecommunications markets was a condition for clearing the Global One venture between France Telecom, Deutsche Telekom and MCI of the US, Agencies report from Brussels.

Commission officials were yesterday indicating that Global One and the Atlas joint venture between France Telecom and Deutsche Telekom would be cleared by the Commission tomorrow with conditions attached.

"The Atlas/GlobalOne alliance agreements raised some very serious concerns regarding their home markets in the relevant services where both operators were holding legal and *de facto* dominant positions," Mr Van Miert said.

"One of the main conditions for us to give this joint venture the go-ahead under competition rules is that full implementation of the commitment to liberalise alternative infrastructure in both Germany and France is not only notified but actually effective – this means new licences granted and new players entering the market," he said.

Commission officials said Wednesday's clearance will also include conditions on the separation of Atlas's activities from those of its parents, a ban on cross-subsidies with parents, and divestment of some activities.

In December, the Atlas alliance received clearance from the US Federal Communications Commission and US Justice Department subject to similar strictures designed to ensure liberalisation of French and German markets proceeded according to schedule.

● The Commission will tomorrow approve the merger of Ciba-Geigy and Sandoz to form Novartis, the world's second-largest drugs group, Commission officials said. They said the Commission's inquiry into the merger had focused on aspects of the venture in the pharmaceutical, plant protection and animal health sectors, and that Ciba-Geigy and Sandoz had agreed to modify part of the merger plans.

● The Commission is tomorrow expected to clear the creation of Dutch venture Holland Media Groep, a European Union official said. It ruled last September that the merger of Dutch-language television channels RTL and Veronica, plus Endemol Entertainment, the largest independent TV producer in the Netherlands, to form HMG had to be restructured to avoid contravening EU competition laws. Endemol has since withdrawn from HMG.

Zhelev raises spectre of dictatorship in Bulgaria

By Anthony Robinson in London and agencies

President Zhelyu Zhelev of Bulgaria yesterday called for stronger presidential powers to head off demands for a return of dictatorship and popular discontent over growing economic hardship.

In an interview with Associated Press the president, a former anti-communist dissident, said presidential elections this year were unlikely to ease Bulgaria's woes if some power was not shifted from parliament to a stronger presidency.

"I am afraid of the irresponsibility of many politicians who obviously don't understand what can happen if things go on like this. I am afraid that in late autumn or winter many people might go on the streets. Then they would demand not a presidential republic, but even a dictatorship, because they are more used to this," he said.

In Plovdiv, Bulgaria's second city, leaders of the anti-communist Union of Democratic Forces (UDF), the main opposition group, yesterday accused Mr Zhelev of being consumed by bitterness after his recent defeat in the presidential primary elections.

The UDF used to support him but chose Mr Petar Stoyanov as its candidate in this autumn's elections. Powerful sections of the party have not forgiven the president for allowing the collapse of the first UDF government led by Mr Dmitri Filipov in 1992 after only a few months in power.

Mr Zhelev counter-attacked by charging that Mr Stoyanov's primary victory was the fruit of a "gigantic manipulation". He added that neither Mr Stoyanov, deputy chairman of the UDF, nor Mr Georgi Pirinski, the foreign minister and leading candidate for the governing Socialist party, had much to offer Bulgaria.

Mr Zhelev has long been at odds with the Socialist government over a range of policy questions. He now seems to be suggesting that the opposition could do little better, and offering himself as the alternative.

Millions of ordinary Bulgarians, however, recently showed their enthusiasm for an older and more traditional form of government when the exiled king of Bulgaria returned for the first time in 50 years to a triumphant welcome.

Popular enthusiasm for the monarchy is largely the reverse side of the unpopularity of all political parties since the collapse of communism in 1989 and the failure of either the UDF or the Socialists to achieve a successful transformation to a market system.

Economic hardship is growing, with monthly inflation topping 20 per cent and a weak national currency, and even bread in short supply.

The Socialist government of ex-Communists promised to ease the hardship of transition. But it has failed to keep its unrealistic electoral promises and must now meet strict criteria to obtain the international loans it needs to refinance the bankrupt banking system, repay foreign debt and restructure the economy.

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Yeltsin recalls Chubais to the colours

Anatoly Chubais: sudden change of mind

By John Thornhill in Moscow

The return of Mr Anatoly Chubais to a powerful post in the Kremlin just six months after being ignominiously fired by President Boris Yeltsin is the latest in a series of extraordinary personnel changes among the presidential staff.

It is also perhaps the strongest signal to date that Mr Yeltsin is determined to brave political controversy and implement many of the bold economic and political reforms contained in his election manifesto.

Mr Chubais was saying as late as last week that he had no intention of returning to the political arena. That he has changed his mind so suddenly suggests he believes he has the political support to make a difference.

The tall, sandy-haired Mr Chubais, standard bearer of Russia's market reforms and a leading figure in Mr Yeltsin's re-election team, inspires veneration and venom in almost equal measures among his countrymen.

His supporters praise him for masterminding Russia's mass privatisation programme, which has transformed the country's economy; his enemies accuse him of selling off the family silver for a song.

In his dual position as head of the presidential administration and chief presidential aide, Mr Chubais will play a vital role as Mr Yeltsin's gatekeeper, helping to set the political agenda and planning the implementation of his goals.

However, his full responsibilities are as yet undefined. His most immediate challenge will be to reinvent the role of the presidential administration, which in the past has duplicated and at times complicated the government's functions.

The presidential administration employs more than 1,000 staff helping to develop policy and supervise most areas of government activity. But its critics allege that it merely acts as another bureaucratic impediment to change.

In his previous post as first deputy prime minister in charge of the economy, Mr Chubais was the chief architect of Russia's stabilisation programme, proving to be the most competent administrator in a government notably short of such talents.

Those who have worked with him speak of his calm organisational skills, a prodigious appetite for work, and an extraordinary ability to navigate the shark-infested corridors of the Kremlin.

The head of one international financial institution in Moscow habitually referred to him as "a demi-god" for the way he conducted the mass privatisation programme.

Mr Vladimir Lukin, a leading member of the liberal Yabloko movement, welcomed Mr Chubais's appointment, saying he was one of Russia's few democrats who had any administrative talent.

"Under Chubais the presidential headquarters will improve its performance, but Chubais will have to improve his negative image," he said.

EUROPEAN NEWS DIGEST

French drugs haul at Channel

French customs agents have seized 106kg of heroin, worth up to $16m, at the entrance to the Channel Tunnel in France's biggest drugs haul in nearly 25 years.

A statement by the Budget Ministry, which is in charge of the customs police, said the heroin was discovered at the Channel port of Calais on board a high-speed train inside a British truck carrying bicycles, photographic equipment and lavatory paper on July 11. A 40 year-old British truck driver was in custody, officials said. The heroin was discovered last Thursday but the ministry announced the seizure only yesterday at a press conference.

Officials said it was the biggest seizure of heroin since 1972, when an international drug smuggling ring based in Marseilles became known as the French Connection. In addition to the heroin, police said they discovered a quantity of cocaine, amphetamines, hashish and a chemical used to make drugs.

The announcement followed one from the other end of the tunnel last Friday, when British customs seized 120kg of the drug ecstasy during a routine check on a car arriving from Belgium and the Netherlands.

Three men from London were taken into custody. Earlier, French customs seized 400kg of cannabis on July 4 on board a coach registered in Spain and headed for Britain. The Spanish driver tried unsuccessfully to flee. On July 8, customs discovered 70kg of cannabis in a car driven by a Dutchman en route to Britain. *Agencies, Paris*

Detained SNCF boss awaits fate

Mr Loïk Le Floch-Prigent is likely to have to wait until Thursday before knowing if he can continue as chairman of SNCF, the state-owned French railway company.

A Paris court yesterday put off until then a decision on an appeal by Mr Le Floch-Prigent against his detention in connection with an inquiry into investments made by Elf Aquitaine, the French oil giant, while he was chairman between 1989 and 1993.

Mr Bernard Pons, transport minister, indicated yesterday he would wait for this judgment before taking a decision on the SNCF chairmanship. "This great enterprise cannot remain without a boss at its head," he said. Mr Olivier Metzner, Mr Le Floch-Prigent's lawyer, said his client awaited the court's decision "with serenity". *David Owen, Paris*

Swissair pilots agree salary cut

Swissair, Switzerland's national airline, has signed a new working agreement with its pilots which includes a no-strike clause and a reduction in their salaries by 5 per cent from July 1. The agreement is also expected to result in the number of flying hours per pilot rising by around a quarter to 600 a year.

If expected cost savings for Swissair of "at least SFr50m ($43m)" do not materialise then the company says it will negotiate a further reduction of up to 6 per cent in pilots' salaries in 1997.

The long delayed introduction of the three-year agreement is the latest sign of the recovery in the fortunes of what used to be one of Europe's least efficient airlines.

The increase in flying hours for pilots will be managed, in part, by extending the geographic range of short-haul flights and by increasing the maximum allowable duty time on long-haul flights. In return Swissair will guarantee jobs for a total of 950 of its pilots for the next three years. The reduction in the number of pilots as a result of the increase in efficiency will be achieved by the introduction of a mandatory retirement age of 55 and a temporary hiring freeze on new cockpit crew. *William Hall, Zurich*

Poles may balk at Nato costs

The overwhelming enthusiasm of Poles for the idea of joining Nato is likely to fade when confronted with the cost of membership, suggests an opinion poll published yesterday by CBOS, a publicly funded organisation.

According to CBOS 58 per cent of Poles believe that their country should delay membership until the "economic situation of the country improves to allow for the cost" if big outlays are required immediately to modernise the country's armed forces. A mere 23 per cent say that membership should be achieved at any cost. Such views could weaken Poland's quest for Nato membership, which was pursued by President Alexander Kwasniewski in a visit to the US last week. The Polish leader elicited a promise that decisions on a timetable for Polish membership would be announced in December at a Nato summit.

However, the move will have to be ratified by the US Congress where doubts are already being expressed on the cost of bringing Poland, the Czech Republic, Hungary and possibly Slovakia into Nato. According to a congressional Budget Office study published in March the outlays by both the existing members and the applicant countries would run to $61bn over 15 years. *Christopher Bobinski, Warsaw*

Polish share measure overturned

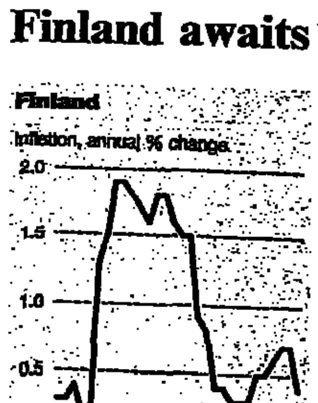
Poland's constitutional tribunal has ruled illegal a Securities Commission measure forcing those buying a 33 per cent stake in listed companies to give current shareholders the right to sell their shares to the buyer.

Mr Leszek Garlicki, head of a three-judge panel, said the measure "constitutes a legal norm adopted without legislative authorisation". The measure was opposed by Poland's Union of Brokers and Securities Analysts in March after Goodyear Tire and Rubber agreed to raise its stake in the Polish tyremaker Debica to 60.7 per cent from 32.7 per cent.

Goodyear did not invite other Debica shareholders to sell their stock to it, prompting the Securities Commission regulation on how certain points of the securities law should be interpreted. *Reuter, Warsaw*

ECONOMIC WATCH

Finland awaits the recovery



Industrial output in Finland rose 2.9 per cent in May from the year before, while inflation remained unchanged at 0.4 per cent in June. The Finnish Central Statistical Office said the production figures, adjusted for the number of working days, showed an increase of 0.5 per cent in industrial output from the corresponding period of 1995. Capacity utilisation in the forestry sector dropped to 87 per cent, down 10 per cent from the year before, reflecting the slowdown in the pulp and paper market. In manufacturing industry, capacity utilisation was 84.5 per cent, down 3 per cent. A 3 per cent drop was also noted in metal and engineering industry capacity utilisation, to 88 per cent. Underlying inflation was 0.2 per cent, underlining the continuing flatness of domestic demand. Rigorous fiscal policies – aimed at preparing the economy for eventual membership of the European Monetary Union – have hit consumer spending and employment. Joblessness, now Finland's biggest economic problem, is 18 per cent. *Greg McIvor, Stockholm*

■ Spain's trade deficit widened to Pta269.3bn ($2.1bn) in May after Pta245.3bn in April.

■ Switzerland's seasonally adjusted trade deficit was revised to SFr94.2m ($75.4m) in May from a previous SFr61.1m.

■ Norway had a trade surplus of NKr7.6bn ($1.2bn), excluding ships and oil platforms, in June compared with a surplus of NKr7.2bn in May.

Karadzic's party faces election ban

By Lionel Barber in Brussels, Paul Wood in Sarajevo and Bruce Clark in London

The US official in charge of overseeing Bosnia's forthcoming elections warned the Bosnian Serbs yesterday that their main political party would be barred from the race unless Mr Radovan Karadzic had quit political life by Friday.

Mr Robert Frowick, head of the commission preparing the September 14 poll, set the deadline as Mr Richard Holbrooke, the architect of US Balkans policy, flew to the region with the overthrow of Mr Karadzic at the top of his agenda.

Mr Holbrooke, re-entering Balkans politics after six months as a Wall Street banker, is due to visit Belgrade, Zagreb and Sarajevo with a message that the US wants the elections to proceed – with Mr Karadzic well out of the way.

Earlier, Mr Frowick postponed until Friday the official opening of the election campaign, which was supposed to start on Sunday, and reaffirmed his view that no party led by an indicted war criminal – such as Mr Karadzic – should be allowed to compete.

"By definition, if this campaign starts on Friday, you can be sure that things must be straightened out by that date," he told a news conference.

Other western policy-makers in Bosnia, such as Mr Carl Bildt who is in charge of the civilian side of the peace process, have stopped short of endorsing Mr Frowick's insistence on banning the SDS, the Serb nationalist party, as long as Mr Karadzic remains its leader. But Mr Frowick will have the casting vote at a meeting of the electoral commission on Friday, so he will be able to overrule Mr Bildt's representative if necessary.

In Brussels yesterday, a meeting of European Union foreign ministers broke up without agreement on how to remove Mr Karadzic and General Ratko Mladic from power. Mr Dick Spring, the Irish foreign minister who was chairing the meeting, said: "The question of how this is achieved should not be allowed to overshadow agreement on our objectives."

Earlier, British and French officials said a decision had to be taken in the next two to three weeks on how to deal with the two Bosnian Serb leaders. They said pressure to secure their removal was intensifying because of the need to neutralise their malign influence as long as possible before the poll.

Mr Malcolm Rifkind, UK foreign secretary, stressed that the UK had always supported bringing both men to justice before the International War Crimes Tribunal in the Hague which issued arrest warrants for them last week.

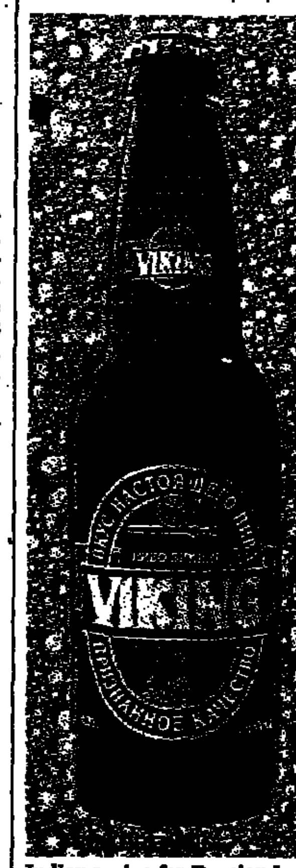
But Mr Rifkind distanced himself from French suggestions that a Nato-led commando raid to arrest the Bosnian Serb leaders might need a change in the UN Security Council mandate. He said it was a matter for Ifor commanders on the ground who would have to assess the risk to Nato troops of taking on heavily armed bodyguards.

Western governments are aware that a commando operation against Mr Karadzic could have the perverse effect of boosting the fortunes of his SDS party. "For some strange reason, Karadzic is still very popular and his removal could strengthen the SDS by making a martyr," said one diplomat.

● Nato said yesterday it had grounded Bosnian government military aircraft after finding four anti-tank weapons and ammunition aboard a helicopter that should have been carrying passengers, Reuter reports from Sarajevo. The incident in the Moslem-controlled eastern town of Gorazde was a violation of a ban on weaponry outside storage sites.

Indian brewers aim to be toast of Russia

Mig jets roar overhead as a drinking revolution challenges vodka culture. **Chrystia Freeland** reports



Indian recipe for Russian beer

Vodka plays so central a role in Russian culture that the name of the nation's favourite alcohol is derived from *voda*, the word for water. But the Sun group, which has acquired the majority stake in five Russian breweries, is betting that as the country grows richer Russian drinkers will shift to the gentler pleasures of beer.

There is nothing revolutionary about Sun's belief that prosperity is likely to bring a switch from hard liquor to less alcoholic beverages, a pattern which is well-established in other parts of the world. But, at a time when the fear of a Communist presidential victory had temporarily scared off outsiders, the Sun group, founded and controlled by the Indian Khemka family, is one of the rare foreign companies with a long-term commitment to manufacturing in Russia.

Oil and other natural resources and high-profile sectors such as telecommunications are the usual favourites for outside investors, but the Khemkas, who have been doing business with Moscow since 1958, believe less glamorous sectors like food processing and light consumer goods are safer for foreigners, who risk being swept away by the mounting wave of Russian nationalism.

"We decided we wanted to invest in something in Russia," explains Mr Shiv Khemka, who together with his father and brother forms the family troika which runs Sun. "Local friends in the government said oil and gas could be dangerous, go for a local industry." But, in 1990, when Mr Khemka began an exhaustive tour of 140 breweries across Russia and eastern Europe, many seemed unlikely candidates for investment.

One of the worst was the Perm Brewery, a neglected stepchild in one of the most heavily militarised regions of what was then the Soviet Union. Located in the very centre of Russia, Perm was closed to foreigners until 1989 and 70 per cent of the local economy was devoted to military production. The legacy of that era is still visible today in the dramatic pattern which the Mig jets based in the city trace across the skyline every night.

However, in a typical Soviet pattern, heavy spending on the defence sector left few resources for producing consumer goods, and the Perm Brewery was one casualty of this policy. "It was the biggest disaster I'd ever seen. There were rats running around. There were cats to kill the rats. there was mould hanging from the ceiling like vines," says Mr Khemka. But Sun's technical team, drawn from leading western brewers, said that the mould concealed a functional factory, so gradually Sun bought up a 75 per cent stake and the new owner has begun to turn the brewery around.

Today the walls and floors gleam with fresh coats of brightly coloured paint and plants adorn the corridors. "It's like an orchard," says one employee. Even the city's bloated defence sector has proven to be an advantage: cash-strapped but highly qualified military plants have made some equipment for the brewery at 20 per cent of the market price.

Production is up by more than 30 per cent; the beer's shelf-life has been extended from five days to 90 days; beers produced at Perm and the four other Sun breweries have won 27 domestic quality awards over the past 18 months; and the Perm company is operating at a profit.

For Mr Sergei Mitirev, the former Soviet-era manager who has been retained by Sun as general director, it has been a personal as well as a professional metamorphosis. "It was all black, there was dirt everywhere. Shiv covered up his eyes in shock," Mr Mitirev says of Sun's first encounter with the Perm plant.

Mr Mitirev's enthusiastic involvement is the result of one of the policies which has been most central to Sun's success in Russia: painstaking co-operation with the old Soviet era management.

Some private owners have entered into open battles with the "red barons", but Sun, like many of Russia's most successful strategic investors, prefers to co-opt them. "We honour them, we make sure they are well off, we give them stock in our company," Mr Khemka says of the Soviet-era managers of the companies Sun has acquired. "All of our directors will become millionaires in dollar terms."

But Sun's effort to maintain a friendly relationship with the old bosses is tempered by an awareness of the pitfalls the often savage world of Russian business can hold for outsiders. One of Mr Khemka's early efforts to buy a brewery went awry when the manager, who had been advising Sun and urging it to do the deal, turned around at the last minute and bought the factory himself. At another plant, Sun found its 20 per cent stake diluted to 3 per cent by managerial sleight of hand. Every foreign investor active in Russia can tell dozens of similar stories.

At the Perm brewery, Sun has brought in a team of foreign accountants and established a separate company, Star Distribution, to sell the beer. "We have complete control of the financing of the company; earlier there was leakage," is Sun's delicate explanation of the step.

Perhaps one of the best signs that Sun has found a winning strategy for one of the world's most daunting markets is a strange new product on sale at the kiosks which line the streets of Perm. Viking, the premium beer which Sun is building into its flagship brand, is readily available, but some vendors are also offering "Viking Malt drink", a copy-cat brew made by zealous local entrepreneurs hoping to profit from Sun's growing reputation. Sun's lawyers are seeking legal recourse, but its managers are delighted by this, the most sincere form of flattery.

OBITUARY: *Jean Rudolf von Salis*

Historian and voice of reason in Hitler era

Jean Rudolf von Salis, who has died aged 95, would be remembered as a distinguished modern historian even if it had not been for the second world war.

Because of the war, this outspoken Swiss was also able to make history in a subtle way. Between 1940 and 1945, he was the only independent current affairs analyst broadcasting in the German language on the European continent.

In the spring of 1940, as the Germans were preparing to invade France, Marcel Pilet-Golaz, the Swiss president, approached von Salis, then a history professor at the Federal Technical Institute in Zurich, and asked him to do a weekly broadcast on current affairs for a Swiss radio programme called Weltchronik.

The first broadcast went out on April 30, less than two weeks before Hitler's panzers advanced into Belgium and Luxembourg. Because the transmitter was in Switzerland, the broadcasts could be picked up easily throughout the Third Reich. Within two months Germany's Nazi government began to complain about von Salis's perceptive analysis and outspoken views.

Swiss generals, terrified of a German invasion, demanded that he be censored, but Berne took the view that von Salis was speaking as a private citizen and not for the government. The government agreed to look at his scripts and insisted that he make no direct criticisms of foreign leaders. Also, no propaganda from foreign powers was to be used.

The Nazi protests continued, but so did the broadcasts, throughout the war and beyond until 1947. Von Salis, who had worked as a correspondent for two Swiss newspapers in Paris during the early 1930s, got around the censors by using to devastating effect the technique of letting the devils condemn themselves. He would quote extracts from Nazi leaders' speeches and official declarations to make clear what was going on. For example, he detected immediately the meaning of Hitler's 1942 outburst against Jewish capitalism and Bolshevism and gave great prominence to the Führer's vow that Jews would never be able to destroy Aryans but would themselves be destroyed.

Only when the war ended and the tributes poured in did the importance of the service provided by this incisive analyst become apparent. Von Salis recalled in his memoirs that General Hans Speidel, who had been Rommel's chief-of-staff, told him: "I learned a lot from you." Von Salis protested that Speidel had known a lot more than he. "That is not true," he quotes Speidel replying.

A Czech resistance leader revealed after the war that he never immediately followed instructions from the Czech government in exile in London because he thought their assessments too optimistic. Instead, he would wait and listen to von Salis's weekly broadcast.

Von Salis grew up in Berne, the scion of a noble family from eastern Switzerland, and settled early on an academic career. He studied history at the universities of Montpellier, Berne, Berlin and Paris, returning to the Federal Technology Institute in Zurich as professor of history in 1935, a position he held until his retirement in 1968.

His views on the future of Europe were widely sought by leading statesmen as the second world war came to an end, and were typically shrewd. He recalled telling Allen Dulles, Roosevelt's special emissary to Europe in June 1944, that Germany should be reconstructed in as decentralised a way as possible.

Of his many books, the most important was a three-volume modern world history, *Weltgeschichte der Neuesten Zeit*, published between 1951 and 1960. Of the Swiss government's determination to maintain a relatively large army after the end of the cold war, he observed in 1991: "The funny thing is, we don't even know whom we're defending ourselves against any more."

Argentina's deficit missing IMF target

By Matthew Doman in Buenos Aires

Mr Domingo Cavallo, Argentina's economy minister, has conceded that this year's fiscal deficit will probably fall short of a target agreed with the International Monetary Fund by $1bn.

In an interview in the financial daily El Cronista yesterday, Mr Cavallo, under fire from critics of tough new measures to tighten fiscal management, said the 1996 full year deficit was now likely to be $3.5bn.

He had already conceded that a poor first half performance would make it impossible to meet a deficit target of $2.5bn for the full year, agreed in negotiations with the IMF earlier this year.

Mr Cavallo on Friday reported an unexpectedly large fiscal deficit of $2.51bn for the first six months of 1996.

The government had been expecting a budget shortfall of $1.47bn for the period, but a sluggish recovery from last year's deep recession continues to limit government revenues.

However, Mr Cavallo insisted his official forecast of 5 per cent economic growth this year would be met, and would be followed by 6 per cent growth "in subsequent years".

Mr Cavallo, who must now renegotiate IMF support next month, on Friday unveiled a package of tax and spending measures he said would save $2bn a year.

The measures included an $800m cut in family welfare subsidies and the abolition of a system where workers receive some of their wages in tax-free meal coupons. The abolition of the coupons is expected to save $700m.

The move to cut deeper into welfare spending came just days after Argentina's Catholic bishops, in their annual message to the government, attacked the administration for failing to address the social costs of economic reform and the severe recession which hit the economy last year.

Along with the church, unions, community groups and congressional leaders have roundly criticised the new measures and some have pledged action to stall their implementation.

The head of the CGT national council of trade unions, Mr Gerardo Martinez, said the new measures would "break the social peace" and were a threat to co-operation between the government and unions on an important employment and training programme.

However, there is little prospect that the package can be blocked. The fiscal measures will be introduced under the so-called "superpowers" legislation – a bill approved this year enabling the economy minister to introduce some tax and spending changes without congressional approval.

AMERICAN NEWS DIGEST

Nasdaq probe close to end

A conclusion to the near two-year investigation by the US Department of Justice into marketmakers in stocks quoted on the Nasdaq market is expected this week. A settlement between the department and around two dozen securities houses is likely to leave the firms relatively unscathed.

The investigation began after an academic study was published in May 1994 which suggested marketmakers colluded to fix a wide spread between buying and selling prices so as to bolster their profits. The study prompted both the Justice Department investigation, aimed at alleged anti-trust behaviour by the marketmakers, and a Securities and Exchange Commission review of the workings of the market and its self-regulatory role.

Although the department is expected to demand random taping of telephone calls by traders, and improved compliance, criminal proceedings are unlikely.

A conclusion to the SEC's inquiry is not expected until later in the summer, although the National Association of Securities Dealers, which operates the Nasdaq market, has acted to strengthen regulation. *Maggie Urry, New York*

Peru widens share offer

The Peruvian government has backtracked on its decision to slash the allocation of Telefónica del Peru shares to small local investors. President Alberto Fujimori has announced the state will assign three-fifths of its remaining 5 per cent stake to satisfy unfilled domestic demand.

In what proved Latin America's largest equity offering for three years, huge international demand for shares in already-privatised Telefónica del Peru outstripped supply by five to one. When shares commenced trading at the NYSE on July 1, Peruvians who had been urged to buy through a popular capitalism programme found their allocation had been cut by more than half. Angry protests led by bankers and stockbrokers who had co-ordinated the local placement finally prevailed and the allocation has been raised to $279m from $148m. *Sally Bowen, Lima*

Italian kidnapped in Colombia

An Italian construction company said yesterday one of its staff had been kidnapped in north-west Colombia.

The company, Astaldi, said Mr Giuseppe Muselli, 54, had been seized on Sunday in an area where he was in charge of the site of a big hydroelectric dam project.

In Colombia, a local radio network said suspected leftist guerrillas abducted the Italian as he was driving through a rural area in Antioquia province, northwest of Medellin.

Colombia has one of the highest kidnapping rates in the world. Guerrillas and criminals take ranchers, industrialists and even foreigners hostage for huge cash ransoms in order to finance their clandestine operations. No ransom demand has yet been received in the Astaldi case. *Reuter, Rome*

Rights mission visits Mexico

The Mexican government yesterday welcomed a human rights mission of the Organisation of American States, which planned to examine a lingering rebellion in Chiapas and migrant issues in Baja California.

The Inter-American Commission on Human Rights also was to visit the western Pacific state of Guerrero, where a clandestine group claimed last month to have taken up arms against the government.

Delegates of the OAS commission arrived on Sunday for a 10-day visit. A foreign ministry statement said the group was warmly received and would be briefed by the government on human rights advances. *AP, Mexico City*

Radical to lead Mexican opposition

By Leslie Crawford in Mexico City

Mexico's Revolutionary Democratic Party (PRD), the main leftwing opposition, has elected a radical firebrand, Mr Andrés Manuel Lopez Obrador, as its new party leader.

Mr Lopez Obrador, the PRD leader in the oil-rich state of Tabasco, is likely to adopt a more combative stance against President Ernesto Zedillo's government on issues ranging from the privatisation of the petrochemical industry to electoral reform.

Mr Lopez Obrador shot to national fame a year ago with a noisy campaign to impeach Mr Roberto Madrazo, the ruling Institutional Revolutionary Party's governor in Tabasco. Mr Lopez Obrador lost the governorship race in 1994, and blames his defeat on the massive, undeclared funds spent by the ruling party to secure Mr Madrazo's victory.

Mr Lopez Obrador inherits a divided party which has lost much of its following because of endless bickering at the top. His detractors, however, say he is not the man to unite the PRD.

His taste for dramatic confrontation – organising a blockade of oil wells in Tabasco and leading protest marches to Mexico City – has made him a hero of the radical Mexican left, but has alienated the moderate wing of the party, represented by Mr Porfirio Muñoz Ledo, the outgoing party president.

Budget squeeze helps to speed Brazilian sell-off

Jonathan Wheatley on federal and state programmes

Brazil's privatisation programme, often criticised for false starts, delays and poor management, seems to be speeding up.

Recent announcements from the communications ministry suggest that cellular and conventional telephone services may be passed to the private sector sooner than expected. Electricity generating companies and ports have been added to the programme. And more than half Brazil's 27 states are preparing to sell assets, mainly in electricity, banking and highways.

Part of the impetus comes from the government's frustration at its inability to force administrative, tax and social security reforms through congress. These are needed to help it balance its budget and keep inflation in check. But with progress stalled, the government is hoping to cut costs and boost industrial efficiency by hiving off infrastructure to the private sector.

It is also increasing sale revenues by limiting the use of so-called "privatisation papers". These are government bonds which are accepted at face value in privatisation sales despite trading at big discounts. Of about $12bn raised so far only about $3.3bn has been in cash.

The urgency can be sensed throughout the country. Last week legislators in the northern state of Pará passed a bill that would allow the state to sell any assets it sees fit.

"Only 2 per cent of our revenues are available for investment," says Ms Rosyan Caldas Britto of Pará's planning department. "We have to release funds to spend on health, education and other social services."

The federal programme started well enough at the beginning of the decade with the sale of the steel industry. What had been loss-making monoliths were slimmed down and turned into well-managed and profitable operations. A string of petrochemicals companies followed.

But as Mr Riccardo Gambarotto of São Paulo consultant firm GDK points out, selling the steel and petrochemicals companies was the easy part.

"Once the government has sold a self-contained company like a steel maker, it no longer needs to worry about it," he says. "But the electricity and telecommunications industries need much more regulation and supervision. When services are sold in the form of a concession for a fixed period, the government remains even more actively involved."

In some areas this process is reasonably straightforward. Concessions have already been awarded to run federal and state highways, and more should follow quickly. However, in electricity distribution, for example, where granting concessions means passing a monopoly from the public to the private sector, regulation is more important.

Preparations for a regulatory body for the electricity industry are still at an early stage. Nevertheless, the government is pushing ahead. Two big electricity companies have already been sold. This was possible because the companies' potential for growth was so great that investors were prepared to take the risk of future regulatory changes.

Mr Gambarotto says the government also had to move quickly to overcome resistance in Brazil's private sector.

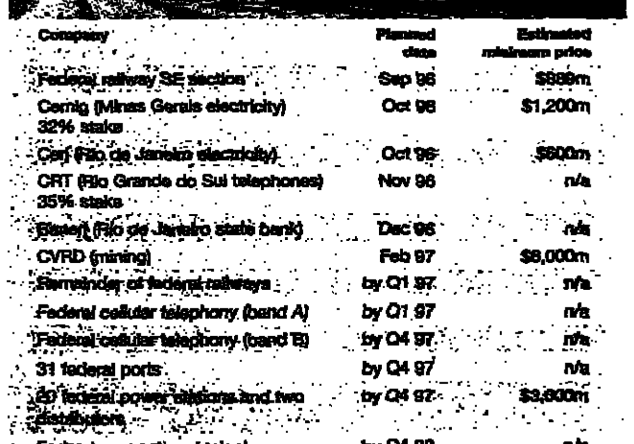
"A lot of very powerful conglomerates owe their positions to government contracts, and they have considerable interests in maintaining the status quo," he says. "The government had to go ahead to show the process is irreversible."

Optimism that the federal programme will continue to move quickly has been underlined by a change of management at the National Bank for Economic and Social Development (BNDES), which runs the privatisation programme.

A new planning minister, Mr Antônio Kandir, to whom the BNDES reports, is also taking a more aggressive stance than his predecessor. Perhaps optimistically, his first act as head of the privatisation programme was to announce last month that 31 ports, whose inefficiency is a big burden on industry, will be passed to the private sector within a year.

At the state level, São Paulo has the most ambitious plans. It hopes to sell electricity assets worth up to $20bn, plus 22 highway concessions and other companies.

Brazil's privatisation plans: the main contenders



Company	Planned date	Estimated minimum price
Federal railway SE section	Sep 96	$889m
Cemig (Minas Gerais electricity) 32% stake	Oct 96	$1,200m
Cerj (Rio de Janeiro electricity)	Oct 96	$600m
CRT (Rio Grande do Sul telephones) 35% stake	Nov 96	n/a
Banerj (Rio de Janeiro state bank)	Dec 96	n/a
CVRD (mining)	Feb 97	$8,000m
Remainder of federal railways	by Q1 97	n/a
Federal cellular telephony (band A)	by Q1 97	n/a
Federal cellular telephony (band B)	by Q4 97	n/a
31 federal ports	by Q4 97	n/a
20 federal power stations and two distributors	by Q4 97	$3,600m
Federal conventional telephony	by Q4 98	n/a

Source: BNDES, state governments, FT

Rio de Janeiro is preparing to sell an electricity company, Cerj, in October; its state bank, Banerj, should follow in December, and then gas and transport companies and the Maracanã football stadium.

Rio Grande do Sul plans to break new ground by selling 35 per cent of its telephone company, the only state company outside the federally-controlled system, in November. Although the state will remain the majority shareholder, operational control will be handed to the buyer. It also plans to sell electricity assets. It says the sales will fund investments of $5bn over the next five years.

Minas Gerais plans to sell a 32 per cent stake in its electricity company, Cemig, in October. Its privatisation programme includes two banks.

The BNDES is also in talks with 11 state governments on helping to prepare their assets for privatisation. Last week it agreed to buy debentures worth $135m in Coelba, the Bahia state electricity company. Earlier it reached a similar deal worth $244m with Rio Grande do Norte.

Mr Luiz Fernando Dorneles, a BNDES director responsible for assisting the state programmes, says at least nine smaller states are preparing to sell electricity companies. Not all will attract buyers; not all can go to market at once. But their cash-strapped owners will be racing to get there first.

NEWS: INTERNATIONAL

Run on provident funds hits Israeli shares

By Ilene Prusher in Jerusalem

Israeli shares plunged 3 per cent yesterday, continuing their two-week decline amid a deepening crisis in the country's provident funds industry.

The decline also signals a growing caution among foreign investors uncertain about the direction of a new hardline government led by Mr Benjamin Netanyahu.

Israelis continued cashing in their provident funds, 15-year instruments that are sensitive to changes in share prices, and moving into high-yield bonds and short-term savings plans. Although early redemption of the provident funds carries a heavy 35 per cent penalty, medium and short-term interest rates of 17 per cent are looking more worthwhile and less risky.

Mr Ohad Argaman, a trader for Oppenheimer, the US investment company, said the market was hit by a herd mentality. "There's a lot of bad publicity now about people getting out of the funds, and no one wants to be stupid and be the last one there." An official at Bank HaPoalim estimates that of the $154bn in public financial assets in Israel 40 per cent is held in provident funds.

In Tel Aviv, the benchmark Mishtanim index fell 5.57 points or 3.03 per cent to 178.16, while the Maof fell 3.29 per cent to 189.38, helped downward by recent falls on Wall Street.

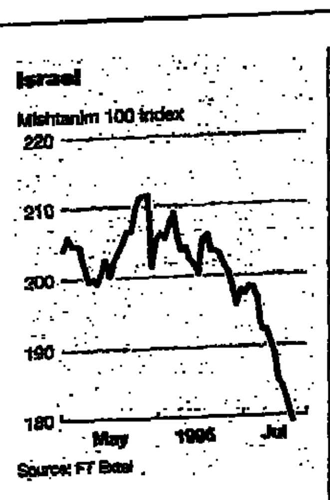
The decline made for a sour homecoming for Mr Netanyahu. He returned to Israel from the US to find the market falling in spite of his promises of privatisation and budgetary restraint. Earlier this month, his cabinet approved plans to cut Shk4.9bn ($1.5bn) from its 1997 budget and to reduce the deficit as a percentage of GDP to 1.5 by the year 2001, from an estimated 2.8 per cent in 1997.

But traders said those policies would take time to implement, and would only go so far in soothing investors' concerns about interest rates and political stability. The finance ministry said the new government had not yet formulated any solution to the provident funds problem. Market analysts blamed high interest rates as the source of the crisis, pointing to an overnight lending rate of 17 per cent, from 13.3 per cent last September.

Now, investors are searching for signs that the central bank will reduce interest rates at the end of the month. After the market's ninth day of decline, the leader of Israel's Manufacturing Association urged the central bank to lower its key lending rate by 3 per cent.

Some form of an interest rate cut looked more likely after markets closed. June's consumer price index was announced as 0.7 per cent, compared with 1.7 per cent in May, providing evidence that a slowing economy might warrant an interest rate decrease. The CPI was expected to fall between 0.7 and 1.0 per cent.

Doubts about prospects for the Middle East are exacerbating the mix, said Ms Hannah Pri-Zan, vice-president of Bank HaPoalim. "When foreign investors recognised that the peace process is ongoing, they came here with their money. And now they're sitting on the fence and waiting to see what will happen," she said.



Uganda rebels slay 90 refugees

By Michela Wrong in Nairobi

More than 90 refugees who fled the civil war in Sudan have been slaughtered in northern Uganda by the Lord's Resistance Army (LRA). They are the latest victims of the increasingly brutal conflict between the fundamentalist Christian rebel group and Uganda's army.

Aid officials in Nairobi said that the rebels attacked a 16,000-strong refugee camp, run by the United Nations High Commissioner for Refugees, 40km from the northern town of Kitgum, on Friday and on Saturday nights.

They are reported to have burned shelters and cars, destroyed food storage bases and killed indiscriminately.

"People were killed right through the night," said Ms Michel Quintaglie, spokeswoman for the UN's World Food Programme. "These people fled the fighting in Sudan and now they've been killed in Uganda. It shows there is nowhere safe left in that region."

Northern Uganda has been the scene of recent intense fighting between the army and the LRA. Both have dramatically stepped up operations in the region since a brief cease-fire during May's presidential elections.

Earlier this week the rebel movement launched a two-pronged drive south, sending 500 men from their camps in southern Sudan across the border into Uganda to advance on the town of Gulu, while another 300 aimed for Kitgum.

The deployment appears to be in retaliation for the army's success in pushing the rebels back to southern Sudan last month.

Led by former Catholic choirboy Mr Joseph Kony and promising to rule Uganda according to the Bible's 10 commandments, the LRA has been fighting the Kampala government for the last nine years, feeding on local resentment at the administration's neglect of the under-developed north.

World 'heads for grotesque inequalities'

By Khozem Merchant in Tokyo

The world has 358 billionaires and their combined assets exceed the total annual income of the world's 2.3bn poorest people – 45 per cent of the global population.

The figures illustrate the yawning gap between rich and poor in an increasingly polarised world, says Dr Richard Jolly, author of the United Nations Development Programme's 1996 Human Development Report, to be launched in Tokyo tomorrow. If it continues, the rich-poor divide – at individual and country level – will produce a world "gargantuan in its excesses and grotesque in its human and economic inequalities".

This year's report takes as its theme human development in economic growth. Based on case studies of 26 countries, it draws a "bitter-sweet" conclusion, says Dr Jolly, special adviser to UNDP administrator Mr James Gustave Speth.

The good news is that the report's key barometer – the human development index, a "quality of life" indicator – has improved in most regions over the past three decades, with Canada topping the league, followed by the US, Japan, Netherlands and Norway.

The UK is 16th, ahead of Germany, which is in 18th place.

Since 1980 15 countries have enjoyed spectacular growth – including China, the East Asian Tigers, Thailand, Botswana and Mauritius – bringing rising incomes to their 1.5bn citizens.

The bad news is that economic decline has affected 100 countries, home to 1.6bn people, a quarter of the world's population. Eighty-nine states were worse off in income terms than a decade ago; 35 have suffered a deeper fall in per capita income than that seen in the 1930s.

Dr Jolly said primary responsibility should lie with individual countries, but global action too, with the UN and the multilateral lenders at the forefront. Measures should include debt relief, more focused use of aid and better access to export markets.

Globalisation, Dr Jolly said, presented unprecedented opportunities for developing economies. The danger of ignoring this challenge would be further marginalisation of many poor economies.

The Uruguay Round of trade liberalisation was expected to produce global benefits of $200bn a year but, warns the report, it would do nothing for people and countries not engaged in the global economy.

Rich countries ponder how much the 20 poorest can be expected to pay back

Deciding a debt the poor can afford

Paris Club will try to decide how much debt to 'forgive', write **Graham Bowley and Robert Chote**

In the heart of the French Treasury building overlooking the River Seine an elite club of officials from 18 of the world's richest nations will gather this week.

Their deliberations could determine the economic destinies of up to 20 of the world's poorest countries – and, with them, the reputations of the World Bank and the International Monetary Fund.

On the agenda of the so-called Paris Club is its contribution to the contentious initiative on poor country debt at present being put together by the IMF and the World Bank.

The Paris Club, which quietly celebrated its 40th anniversary this year, shuns publicity, yet its role has been central to the stability of the world's financial system during the debt crises of the past four decades.

Since 1956, when it first tackled Argentina's debt problems, the club has acted as debt collector for the world's biggest creditor nations. With the large debt crises of the 1980s behind it and the biggest deal in its history – the restructuring of Russia's $38bn debts – successfully completed earlier this year, the Paris Club's role looked set to diminish.

However, the aim of the initiative this week is for government, commercial and multilateral creditors to reduce the debts of the poor countries to "sustainable" levels. To a considerable extent the fate of the plan now rests in the hands of the Paris Club – since the World Bank and the IMF are reluctant to press on with it until the Paris Club has committed its resources.

Under shrewd French chairmanship, the multinational group of government officials has at its regular meetings managed to steer steadily and successfully more than 72 countries – involving about $319bn in debt – from default back to participation in the world financial community.

This has been achieved either by rescheduling debt or interest repayments or, in some cases, "forgiving" certain proportions of the debt.

The Paris Club's negotiating terms have gone through several incarnations. In the first deals, debtor countries were required to pay all their loans back. But when it was recognised this was impossible for some poor countries, gradually larger proportions of debt were forgiven.

According to Mr Christian Noyer, president of the Paris Club: "There was no sense in rescheduling the same debt over and over again. It was better for the security of creditors to accept from time to time debt reductions. It was the only way to let a country have a way back to economic growth and development."

Noyer: finding countries a path back to growth

This week it will ponder calls to allow even greater debt forgiveness than the two-thirds of debts incurred by a poor country up to a given cut-off date – the "Naples terms".

With the World Bank and IMF's initiative expected to cost up to $7.7bn, the issue at stake is one of burden sharing. At their Lyons summit, the Group of Seven leading industrial nations discomfited the World Bank by recommending that it commit $2bn to the initiative. The financing of the IMF's contribution has meanwhile become entangled in an acrimonious and almost theological discussion about the status of its gold reserves.

In Lyons, the G7 urged that "the Paris Club countries, where they deem appropriate, on a case by case basis, go beyond the Naples terms for these countries" – a statement regarded by many as unclear.

Some countries such as the UK have recommended that the Paris Club go as high as 80 per cent on debt forgiveness in certain cases. But also at issue is whether the present cut-off date for eligible debt be extended – so greatly widening the amount of debt to which the write-off terms are applied.

The World Bank and the IMF need a successful conclusion to the initiative. Both face intense scrutiny from budget-conscious governments and high-profile campaigning groups, such as Oxfam and Christian Aid.

World Bank officials would like to see the meeting this week agree roughly what share of the costs the Paris Club will pick up and to ask its secretariat to draw up a menu of options as to how its help might be delivered.

But these are hopes rather than expectations. Other debt negotiations – for Congo and Peru – are on the table and officials fear the Paris Club may not feel that it is under sufficient pressure to take the necessary big decisions.

With the club not meeting again until the autumn, that could leave the initiative in limbo until the eve of the IMF and World Bank annual meetings in early October. While the proposed changes to the Paris Club's terms may seem huge now, the impetus for poor countries' debt relief may be lost, and the change made even more difficult, if the decision is postponed until the autumn.

Editorial Comment, Page 17

NEWS: WORLD TRADE

US removes sanctions in hormones row

By Guy de Jonquières

The US yesterday removed punitive sanctions on European exports worth about $100m a year imposed in the late 1980s in retaliation against a European Union ban on hormone-treated beef.

The decision was seen as a tactical move, intended to strengthen an attempt by the US and several other countries to have the hormone ban declared illegal by the World Trade Organisation.

The WTO agreed in May to set up a disputes panel to investigate a US complaint that the EU ban violated world trade rules. The panel has six months in which to reach a decision.

The EU responded by lodging a counter-complaint, arguing that the US had acted illegally when it retaliated by doubling tariffs on European exports such as canned tomatoes, soluble coffee, pet food and alcoholic drinks.

The European Commission yesterday requested a 24-hour suspension of the disputes settlement meeting hearing its complaint, while it sought official confirmation of the US move.

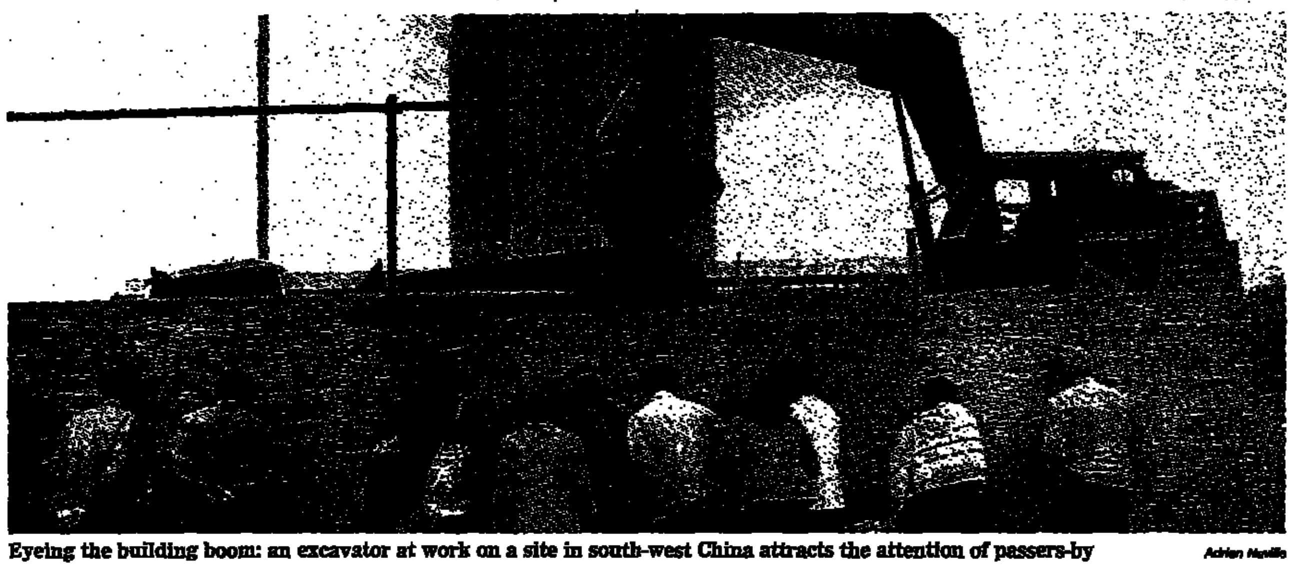
EU officials said removal of the US sanctions made it less likely that it would pursue its complaint. However, Brussels might decide to push ahead, to try to obtain compensation for lost exports and to challenge the legality of Section 301 of the US trade law, the controversial provision under which the sanctions were imposed.

Though the volumes of trade involved in the hormones case are relatively small, it is one of the politically most highly-charged trade rows brought to the WTO's new tough disputes settlement procedures.

The EU has dug in solidly behind the ban, which it says is essential to avoid damaging consumer confidence in beef. If the WTO ruled the measure illegal, it could create a political furore in the EU and strain relations with the trade body.

The hormone ban covers beef produced in the EU as well as imported. The US, backed by Australia, Canada and New Zealand, argues that it is illegal because it does not comply with a WTO requirement that such measures be backed by clear scientific evidence.

The EU has produced no such evidence in support of its case, and the European Commission's scientific advisers say there is no proof that addition of hormones to beef endangers human health.



Eyeing the building boom: an excavator at work on a site in south-west China attracts the attention of passers-by Adrian Neville

Japanese group responds to growth in China's infrastructure spending

Kobe to boost digger production

By William Dawkins in Tokyo

Kobe Steel, the Japanese steel and construction equipment manufacturer, yesterday announced a $33m plan to boost its production of hydraulic excavators in China from 50 to 700 units a year by the end of the decade.

The expansion, a response to the fast rise in infrastructure spending to support China's industrialisation, will take place at Chengdu in Sichuan Province, where Kobe launched a joint venture, Chengdu Kobelco, two years ago.

This is the latest in a series of recent advances by Japanese industrial manufacturers with joint ventures in China. Last week Hino Motors announced it would start producing truck engines there in 1998, and two months ago Toyota, Japan's largest car group, said it had received official approval to make car engines

Kobe started making hydraulic equipment in China relatively early, in 1994, and this expansion is seen by the group as a vindication of a venture at first thought risky. Chengdu Kobelco was the first alliance between Japanese and Chinese construction equipment groups. Since then, several competitors have launched joint ventures including Komatsu and Hitachi of Japan, South Korea's Hyundai, Caterpillar of the US and Leibherr of Germany.

China's ministry of machinery industry forecasts that annual demand for hydraulic excavators will double to 20,000 by the end of the year. Chengdu Kobelco would have a 3.5 per cent share of this, with expected turnover of $65m.

By that time, the Chinese government aims to satisfy the country's entire demand for hydraulic excavators from onshore plants, including joint ventures with foreign companies. Currently, Chinese-only companies supply 30 per cent of demand Most of the remaining 70 per cent is imported and local joint venture production is on a small scale.

Currently, Chengdu Kobelco's main markets are in China's south-west and north-west, but in future the group expects the Three Gorges dam project in south China, and construction projects in Beijing and Shanghai to generate the fastest growth in demand.

The Chengdu Kobelco plant will increase its workforce from 40 to 160 by 2000.

Kobe Steel owns 40 per cent of Chengdu Kobelco, 45 per cent is held by Chengdu Engineering Machinery of China and the remaining 15 per cent is equally divided between two Kobe affiliates and Itochu Corporation, the Japanese trading company.

WORLD TRADE NEWS DIGEST

Airbus lands big order from GE

Airbus Industrie, the four-country European aircraft manufacturing consortium, has won an order for 45 aircraft and 45 options from General Electric Capital Aviation Services, the leasing arm of General Electric of the US.

This is the first time Gecas has bought aircraft from Airbus, which is owned by Aérospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain. In January Gecas placed a $4bn order with Boeing of the US for 107 aircraft.

Gecas has placed 40 firm orders and 40 options for single-aisle aircraft from the A319, A320 and A321 family. It has also placed five orders and five options for long-range four-engined A340-300s. All the aircraft will be powered by CFM56 engines, produced by a joint venture between GE and Snecma of France.

The order follows the announcement by Airbus that it had won 143 firm orders during the first six months of this year – more than it received during the whole of 1995.

Airbus made a significant breakthrough earlier this year when it won an order from China for 30 of its A320s and three A340s. The order nearly doubled Airbus's market share in China, previously dominated by Boeing, the world's biggest aircraft maker. *Michael Skapinker, Aerospace Correspondent*

Dutch offer telecoms licences

The Dutch government yesterday invited applications for licences to build and run cable-based telecommunications networks, which for the first time will provide competition for KPN, the privatised utility, in fixed line services. Two national licences and as many as 1,300 regional concessions are on offer.

A consortium grouping British Telecommunications with NS Telecom, an offshoot of the Dutch national railways, is one strong contender. Domestic energy companies are also in the running.

KPN, already under challenge from rivals in sectors such as mobile phone services, is acting to protect its position ahead of full liberalisation of the industry in 1998. Last week Casema, a KPN subsidiary which is the country's biggest cable television operator, announced plans for a trial phone service.

Applicants for national licences will be judged on infrastructure quality and the speed with which it could be installed. Applications close on September 9 and winners will be chosen by December. *Gordon Cramb, Amsterdam*

Ramco signs Azeri oil field deal

Ramco, the Scotland-based energy company, has signed an alliance agreement with Schlumberger, the Franco-American oil service company, to manage the proposed development of the giant Muradhanli onshore oil field in Azerbaijan.

The field, discovered during the Soviet era, is 130km south west of Baku.

Muradhanli is estimated to contain more than 1m barrels of light, low sulphur oil, but the reservoir's complex geology hampered earlier development efforts by Socar, the Azeri state oil company.

Ramco, a partner in the international consortium developing three offshore fields in Azerbaijan, hopes to sign a joint venture agreement on the field's development with Socar within the next few months.

Final agreement has been held up by negotiations on the present tax regime for onshore fields, which is less generous than that offered to investors in offshore projects in the Caspian Sea. *Robert Corzine, London*

Apec urged to lead way on liberalising trade

By Bethan Hutton in Christchurch

The Asia Pacific Economic Co-operation forum (Apec) should lead the way in moving world trade liberalisation forward, but must also extend its initiatives beyond member states, according to Mr Renato Ruggiero, director general of the World Trade Organisation.

Speaking at a meeting of Apec trade ministers in Christchurch, New Zealand, yesterday, he warned that "without such a convergence, we risk fragmentation of the global economy into two, three or four preferential regional blocs, each one with its own rules and procedures, confronting each other at the border".

Apec's 18 members account for 38 per cent of the world's population, 54 per cent of its gross domestic product and 45 per cent of its trade. Mr Ruggeiro said that the contribution of Apec member states towards tearing down trade barriers was vital to the success of the WTO's first ministerial meeting in Singapore in December.

After meeting Mr Wu Yi, China's minister of foreign trade and economic co-operation, Mr Ruggiero said China would attend the December meeting as an observer.

The trade ministers spent much of the day discussing the Singapore meeting and were urged to speed up progress on outstanding issues so the December gathering could be forward-looking rather than concentrating on exisiting commitments.

The US delegation used the Apec forum to push its plan for an information technology accord leading to zero tariffs for computers and telecommunications products by 2000. The proposal for an ITA has gained support from several countries, but Apec members have been less forthcoming in responding to Washington's request that they present improved offers to free their telecoms markets as part of negotiations due to conclude by February 1997.

The US is also trying to add labour standard issues to the Singapore agenda, but is meeting considerable resistance.

US and Japanese officials held further talks aimed at resolving the semiconductor issue before the expiry of their existing bilateral agreement on July 31. The US wants a new transitional agreement to maintain its chip producers' share of the Japanese market, but the Japanese say there is no need for a new pact.

Ms Charlene Barshefsky, the US trade representative, described Monday's meeting as constructive, and Mr Shumpei Tsukahara, the Japanese trade minister, said the gap between the two sides was narrowing. However, another Japanese official said that the new US proposal had been disappointing. Japanese negotiators plan to present an updated plan today.

ICO, the mobile telecoms group, yesterday urged the US regulatory authorities to ensure non-discriminatory treatment for all mobile satellite services operators seeking to provide domestic and international services in the US, writes Alan Cane.

The only non-US owned competitor in a race to mount the first satellite-based handheld mobile telephone service, it argued that tentative US moves to distinguish between US and non-US operators was misguided and could reduce competition to the detriment of US customers and business.

Beijing moves to bolster N Korea with aid offer

By John Burton in Seoul

North Korea is to receive new economic and political support from China in an effort by Beijing to protect the troubled Pyongyang government from possible collapse.

In the past week, China has announced measures to repair its ties with North Korea and restore relations to the days when they were "as close as lips and teeth".

The policy reflects a new assertive role by China on the Korean peninsula, which historically has been seen by Beijing as within China's sphere of influence.

Chinese offers of aid to North Korea could undercut attempts by US and South Korea to force Pyongyang to negotiate a peace treaty formally to end the 1950-53 Korean war, while raising questions about China's support for the talks proposed by Washington and Seoul.

The US and South Korea agreed at the weekend not to provide more economic aid to North Korea until it accepted the proposed four-party talks involving the two Koreas, the US and China.

Beijing will provide 100,000 tonnes of food aid to alleviate growing shortages in North Korea after floods destroyed crops last year. This follows a donation of 10,000 tonnes of rice and a similar amount of corn.

A Chinese naval flotilla will visit the North Korean port of Chongjin this week, believed to be the first such gesture by the Chinese navy, to celebrate the 35th anniversary of their mutual aid treaty.

More importantly, China is considering resuming supplying goods to North Korea at "friendship" or subsidised, prices. China scrapped the practice in the early 1990s, instead demanding cash payments at international market rates from North Korea, which is suffering a foreign exchange shortage.

"China wants to keep the status quo on the Korean peninsula and prevent North Korea's absorption by South Korea," Mr Michael Breen, editor of the Seoul-based North Korea Report, said. "It wants to prevent hungry North Korean refugees fleeing into China." Ties between Pyongyang and Beijing cooled after China established diplomatic relations with South Korea in 1992.

Beijing officials have privately criticised North Korea for its inability to introduce market reforms. In response, Mr Kim Jong-il, the de facto North Korean leader, described the Chinese as "opportunist betrayers of socialism".

China's rapprochement with North Korea may also reflect a policy to play off Seoul against Pyongyang in an attempt to increase Beijing's influence on the Korean peninsula.

Beijing's relations with Seoul have recently hit a rough patch despite the millions of dollars South Korean companies are investing in China.

China recently cancelled a state-sponsored Sino-Korean passenger jet project. The two nations are also disputing fishing rights in the Yellow Sea. North Korea has played a similar diplomatic game between the China and Taiwan to gain Beijing's attention. Pyongyang is encouraging ties with Taiwan, which is considering offering $7m aid to North Korea.

At a seminar held in Tokyo this week, North Korea also appealed for business investment from Japan and other countries.

Kim Jong U, foreground, vice-chairman of North Korea's overseas economic affairs council and a leading economic reformer, making a plea to South Korean and Japanese businessmen at a seminar in Tokyo yesterday for foreign investment to revive the country's troubled economy. Picture: AP

ASIA-PACIFIC NEWS DIGEST

Parliamentary apology to Rao

Mr Indrajit Gupta, India's home minister, was forced to apologise in parliament yesterday for suggesting it would be "impossible" for Mr P.V.Narasimha Rao to carry on as leader of the Congress party after his recent summons before a Delhi court in a fraud case.

Congress leaders had claimed the remarks represented "interference" in the party's affairs and threatened to withdraw their backing for the 13-party coalition government, a move which would risk causing it to fall. Mr Gupta's apology after a 45-minute harangue appeared to calm the latest squall to beset the five-week-old government. "We are satisfied," said Mr Santosh Mohan Dev, Congress chief whip.

Meanwhile, the Delhi high court turned down a private petition calling for Mr Rao to be arrested without bail after his summons to answer charges in the swindling trial on July 24. Mr Lakhubhai Pathak, a London-based businessman and the trial's plaintiff, alleged Mr Rao had been party to defrauding him of $100,000. Two others accused in the case, including controversial "god man" Chandraswami, had been refused bail and are in detention. Mr Rao's lawyers are expected to appeal for the summons to be quashed. *Mark Nicholson, New Delhi*

HK people 'face visa problems'

Hong Kong people face a battle to persuade Europe to grant them visa-free entry after the British colony is handed back to China next year, Governor Chris Patten, said yesterday. "I have to say that there's quite a hill for us to climb in Europe," Mr Patten said as he returned from meeting Mr Jacques Santer, the European Commission president, in Brussels.

Britain, which hands sovereignty of the colony of 6.3m people to China on June 30 next year, is pressing European nations to give Hong Kong residents visa-free access after the territory becomes a Special Administrative Region (SAR) of China. Hong Kong people now hold various local documents, including limited British overseas passports that allow visa-free entry into many countries. After the 1997 handover, the new Hong Kong authorities will issue SAR passports to eligible citizens. But few countries apart from Britain have said they would recognise the SAR passport and allow visa-free entry. *Reuter, Hong Kong*

Japan's industry output up 2.7%

Japanese industrial output rose 2.7 per cent in the year to May, slightly up on the preliminary estimate of 2.3 per cent, according to the Ministry of International Trade and Industry.

The upward revision is large enough to have affected Japan's industrial growth rate for the second quarter to June, when output rose by a final 1.5 per cent, year on year, as against the preliminary estimate of 1.2 per cent. Industrial production rose by 0.5 per cent from the previous three months, rather than the initially estimated 0.3 per cent.

■ The Rev Jesse Jackson, the US civil rights leader, today begins three days of meetings with senior executives in Tokyo, to lobby for improved business and human rights treatment of minority groups in the US. His visit follows a class action in April by US employees of Mitsubishi Motors, alleging sexual harassment and discrimination. *William Dawkins, Tokyo*

China's 'economic soft landing'

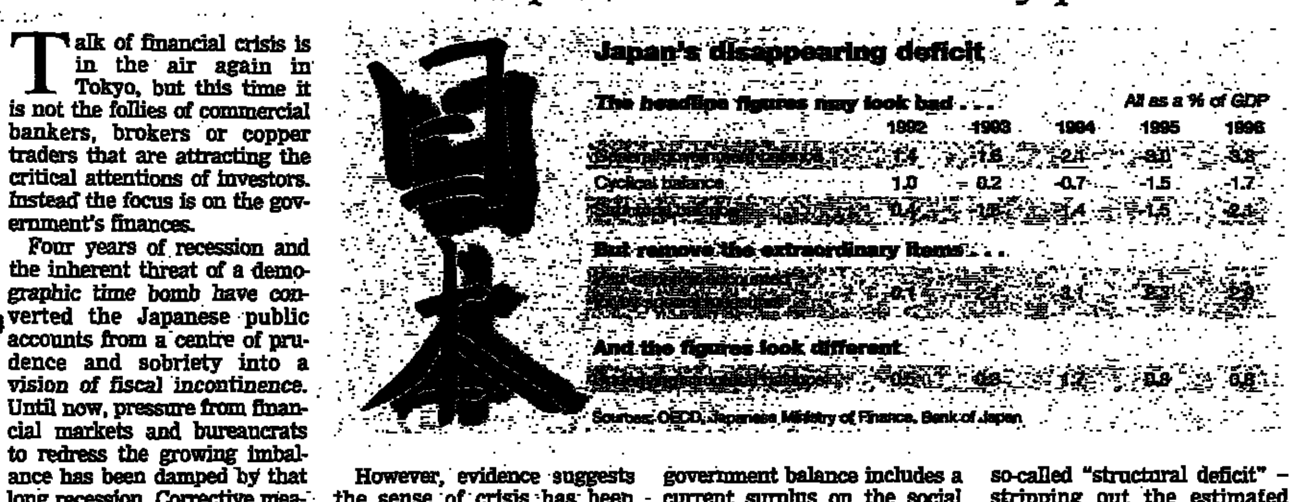
China's official Xinhua news agency yesterday hailed a "successful soft landing" for the Chinese economy in the first half of 1996, as Mr Dai Xianglong, the governor of China's central bank, hinted at a further interest rate cut later this year. Inflation was 7.1 per cent, year-on-year, for the January to June period, and Mr Dai said he expected inflation to be below 9 per cent for the year. GDP growth for 1996 is likely to be between 9-10 per cent, he predicted. He said Beijing would continue with its tight monetary policy, but if inflation stabilised or continued to fall, interest rates would be cut. Mr Dai also raised the prospect of a reduction in bank reserve ratios – currently 13 per cent, although he said this did not signal a change in monetary policy. *Sophie Roell, Beijing*

Sixty die in Hindu stampede

Sixty Hindu worshippers were crushed or suffocated to death, and scores were injured, in dawn stampedes in India yesterday as they gathered to celebrate a new moon festival. Officials said 39 people, including five children, were killed and dozens injured in the town of Ujjain in central Madhya Pradesh state, when a crowd of worshippers surged down a narrow staircase inside a temple. At least 21 more were killed and 40 seriously injured when devotees rushed to bathe in the Ganges river in the northern town of Hardwar. *Reuter, Ujjain, India*

Japan ready to put financial house in order

Fears about the state of public sector deficit may prove alarmist. Gerard Baker reports



Talk of financial crisis is in the air again in Tokyo, but this time it is not the follies of commercial bankers, brokers or copper traders that are attracting the critical attentions of investors. Instead the focus is on the government's finances.

Four years of recession and the inherent threat of a demographic time bomb have converted the Japanese public accounts from a centre of prudence and sobriety into a vision of fiscal incontinence. Until now, pressure from financial markets and bureaucrats to redress the growing imbalance has been damped by that long recession. Corrective measures have generally been regarded as impossible while growth remained elusive.

But now, as the signs multiply that the economy is returning to normal, more healthy rates of growth, there are strong indications that the authorities are at last preparing to put the public finances in order.

Urged on by the financial markets, the government seems to be preparing for an aggressive assault on the fiscal deficit in the next year. Last month it approved a rise in consumption tax, and senior finance ministry officials have pledged to restore the finances to balance as soon as possible.

However, evidence suggests the sense of crisis has been exaggerated. Thanks to Japan's innately conservative rules of fiscal management the immediate problem is already set to be addressed, without the need for more deflation.

The headline figures certainly appear to support the alarmist case. As recently as 1992, the general government balance showed a small surplus. But as the recession started to bite, cutting tax revenues and forcing public spending higher, Japan began to run its first ever persistent deficit. By this year, that gap had reached just less than 4 per cent of GDP.

And the underlying position is worse than that. The general government balance includes a current surplus on the social security account. In 20 years or so, that will also turn into a big deficit, as a rapidly ageing population produces more pensioners and fewer workers to provide for them. Excluding the social security surplus, the underlying fiscal deficit is almost 8 per cent of GDP.

Thus, even after adjusting for the effects of slow or no growth on the government accounts, the Japanese position appears substantially worse than that of most other leading economies.

According to the Organisation for Economic Co-operation and Development, a grouping of 26 of the world's most industrialised countries, the so-called "structural deficit" – stripping out the estimated effect of the damage caused by cyclically weak revenues and higher public spending – was as high as 1.5 per cent of GDP last year, one of the highest of the Group of Seven industrialised countries, and is set to go higher this year.

"Japan is now clearly in the fiscal delinquent class," says Mr Russell Jones, an economist with Lehman Brothers, the US investment bank in Tokyo. "The consolidation of the public finances is an urgent priority." It is a view widely shared in financial markets.

But there is a danger that some of this alarm may be misplaced. In calculating the structural balance, the OECD estimated only the effect rising growth will have on taxation and automatically generated public spending, such as lower social security costs. But a large factor in the deterioration in the public finances has been the result of a unique feature of Japanese demand management.

Repeated special stimulus packages have been used since 1992 to cut taxes and boost spending, over and above that which naturally occurs in a recession. In Japan, unlike in other industrialised countries, those measures are by their very nature time-limited – confined to just one fiscal year. The government has to propose and parliament must approve, each new bout of stimulus measures as and when they are deemed necessary each year.

The current fiscal year's contribution is especially large. Without another package for next year, public spending of about Y7,000bn ($63.25bn) and tax cuts of a further Y2,000bn, will automatically disappear. In addition, another Y4,000bn will be raised from the proposed increase in the consumption tax.

If there is no special stimulus package next year, the net addition to the public finances will be more than Y13,000bn, 2.3 per cent of GDP.

Removing these and other special measures from the figures, the underlying structural deficit over the last few years disappears completely. In terms of its recurring budget plans, in other words, Japan has in fact been running a surplus all along. In short, automatic stabilisers are already in place to ensure that as the economy recovers, the government's financial position will quickly revert to balance.

There can be little doubt, however, that in the longer term, the Japanese fiscal position is weak. Because of the dismal demographic outlook the country is headed for a real crisis early in the second decade of the next century. But the immediate problems are much less intractable.

Indeed, the greater immediate risk is that the fiscal tightening already planned for next year might prove too much for an economy that is still well short of achieving a full recovery from the trough of the last four years.

Much of the recent evidence of a strong rebound has its origins in the fiscal stimuli of the last year that are about to be removed. Precipitate action by the government now to avert a crisis in 10 or 15 years' time might, in hindsight, seem premature.

Tokyo relieved at pro-nuclear win

By Emiko Terazono in Tokyo

Japanese government's plans to increase the country's reliance on nuclear-generated energy received a boost yesterday with the victory of a pro-nuclear power candidate in a controversialmayoral election in western Japan.

The slim victory in the election in Suzu by Mr Osamu Kaizo, supported by the Liberal Democratic party, the leading member of the government coalition, followed an accident last year at Monju, the country's most advanced nuclear power plant, which provoked opposition to the nuclear energy programme.

His opponent, Mr Junichiro Kashida, was an opponent of the construction of a local nuclear plant, and was backed by local environmentalists and the Communist party.

Prime Minister Ryutaro Hashimoto yesterday said the Suzu election result, in Ishikawa prefecture, indicated that nuclear power production was "without doubt, necessary for the future". Mr Teijiro Furukawa, deputy chief cabinet secretary, said the government would continue to promote nuclear power because of its importance to the country's energy policy.

"The election shows the will of the residents," said Mr Furukawa of the narrow victory.

The election, which was held after the supreme court nullified the 1993 mayoral election over illicit voting manipulation, was seen as a key gauge of public sentiment that could have affected the government's future nuclear energy policy.

Over a third of Japan's energy consumption comes from nuclear power, and the government has indicated that it wants to raise the country's use of nuclear energy to 42 per cent by 2010.

However, the recent increase in the country's anti-nuclear sentiment has forced some electric power utilities to withdraw plans to construct nuclear power facilities. The town of Maki, in Niigata, in northern Japan, will hold the country's first referendum over the construction of a nuclear power plant next month.

Meanwhile, Mr Morio Kimura, governor of Aomori prefecture in the northern tip of Honshu, Japan's main island, yesterday expressed his support for plans to build a new nuclear plant in his prefecture.

The Electric Power Development Co-ordination Council, a government advisory panel, has started to review plans to build a nuclear power plant in the village of Higashidoori in north-eastern Aomori. The panel's review is the first since 1986, when it assessed a nuclear facility in Ishikawa for Hokuriku Electric Power.

Indian industrial group confident over charges of share switching

Reliance has 'sound defence'

By Mark Nicholson in New Delhi

Reliance Industries, India's biggest textiles and petrochemicals group, said it had a sound defence against criminal charges of illegal share switching and substitution of company shares to certain shareholders, and would "co-operate fully" with investigators.

The response follows summonses issued in Bombay late last week by the registrar of companies against Reliance, its directors Mr Dhirubai Anbani, Mr Mukesh Anbani, Mr Anil Anbani and Mr Vinod Anbani, several other top executives and Reliance Consultancy Services, Reliance's registrar.

The criminal charges under the Companies Act relate to separate instances of alleged share switching and the issue of duplicate shares which have since been under investigation by the Securities and Exchange Board of India, (Sebi), the country's market watchdog.

The registrar lodged a total of 29 complaints in two main cases. One alleges wrongdoing in the substitution of 37,600 shares issued as duplicates to a Ms Rajul Vasa and family members, issued after the bearers reported the loss of their original Reliance shares. The charges allege that duplicates were issued even while Reliance Consultancy Services was aware the originals remained in existence.

The second case alleges official misconduct in the switching of more than 700,000 Reliance shares to three leading Indian financial institutions, Unit Trust of India, Peerless and Canfina, a subsidiary of Canabank. The court petition alleges the institutions, which lodged their shares for registration, had "not been delivered the shares they originally lodged for transfer, but have been delivered some of the shares with different distinctive numbers and or from different transferors", in contravention of the Companies Act.

The offences carry punishment of fines or imprisonment for up to 6 months or both. Speculation over the outcome of the investigations has cast a shadow over Reliance for several months, contributing to a recent sharp weakening in the company's share price. Reliance Industries' stock close down Rs7 on Friday's close at Rs170.50 ($4.81).

A Reliance spokesman said the company had "adequate and sound defences to all the complaints filed" and declined further comment on grounds the cases were now *sub judice*.

A company statement said the company's officers had "at all times exercised the highest levels of care" to ensure "full compliance of all applicable laws, rules and regulations" and denied any "deliberate or wilful lapse in this regard".

Sebi also on Friday cancelled the licence of Reliance Consultancy Services, the separate company which handles the Reliance group's share registration, for alleged wrongdoing in both the cases investigated. All share registration in India, which has an entirely paper-based system of share transaction, is done manually by registrar companies.

A Reliance spokesman said yesterday that the company was seeking a "compounding" of all the 29 charges "to avoid a multiplicity of protracted legal cases" and urged all charges be heard together.

The registrar has ordered Reliance to answer the charges in court on October 15.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.1	99.8	85.0
1987	105.6	100.7	103.9	97.5	76.1
1988	109.9	103.2	106.6	99.4	71.0
1989	115.2	108.5	109.0	101.4	74.9
1990	121.5	113.9	113.5	104.0	73.2
1991	126.6	116.3	117.3	107.3	74.1
1992	130.4	117.7	120.1	107.0	74.0
1993	134.3	119.2	123.1	106.7	76.4
1994	137.8	119.9	126.5	105.4	74.3
1995	141.7	122.2	129.7	104.7	68.7
2nd qtr.1995	3.1	2.1	2.4	-0.5	66.5
3rd qtr.1995	2.6	1.6	2.8	-0.7	68.4
4th qtr.1995	2.6	2.2	2.6	-0.6	69.9
1st qtr.1996	2.7	2.2	2.7	-1.9	71.9
July 1995	2.8	1.7	2.8	-0.2	66.8
August	2.6	1.3	2.9	-0.5	68.9
September	2.5	1.6	2.7	-1.4	69.8
October	2.8	2.3	2.7	-0.6	69.3
November	2.6	2.1	2.5	-0.5	69.8
December	2.5	2.3	2.7	-0.4	70.6
January 1996	2.7	2.2	3.4	-1.3	71.5
February	2.6	2.0	2.8	-2.4	71.8
March	2.8	2.4	2.2	-1.9	72.3
April	2.9	2.5	3.5	-1.3	72.9
May	2.9	2.3	3.4	-1.3	73.4
June		2.7			

■ JAPAN	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	102.8	118.5
1987	101.3	92.5	103.1	100.0	122.8
1988	102.4	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.8	126.3
1990	108.4	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.0	113.2
1992	113.8	95.9	125.0	112.8	114.9
1993	115.4	94.3	125.8	118.9	131.9
1994	116.2	92.6	128.4	118.5	136.3
1995	115.9	92.0	132.5	115.9	138.3
2nd qtr.1995	-0.1	-0.5	2.3	-3.3	151.4
3rd qtr.1995	-0.2	-0.7	3.7	-0.7	136.9
4th qtr.1995	-0.7	-0.7	3.2	-1.2	126.3
1st qtr.1996	-0.3	-0.9	1.8	-0.6	122.1
July 1995	-0.1	-0.7	6.5	-1.2	145.2
August	-0.4	-0.7	0.5	0.0	136.3
September	0.0	-0.6	2.3	-0.8	129.2
October	-0.9	-0.6	2.3	-2.2	127.2
November	-0.6	-0.6	2.3	-0.5	125.6
December	-0.5	-0.8	4.3	-0.8	126.2
January 1996	-0.5	-0.8	-0.1	-2.6	122.5
February	-0.3	-0.9	3.0	-2.5	122.5
March	-0.1	-0.9	2.7	3.3	121.8
April	0.3	-0.9	2.4	-0.1	120.8
May	0.2	-0.9	1.5		122.3
June		-0.1			

■ GERMANY	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.6	101.8	107.5
1987	100.1	95.0	107.9	107.1	110.9
1988	101.4	96.2	112.6	106.9	109.9
1989	104.2	99.3	117.1	106.0	110.6
1990	107.0	101.0	123.5	110.3	110.0
1991	110.9	103.4	131.3	115.0	107.6
1992	115.3	104.9	137.2	121.5	110.6
1993	121.7	105.1	145.6	125.9	111.6
1994	125.1	105.7	150.6	118.1	110.0
1995	127.4	107.5	155.8		115.1
2nd qtr.1995	1.9	1.9	3.8		116.1
3rd qtr.1995	1.7	1.9	3.3		114.6
4th qtr.1995	1.7	1.3	4.3		114.7
1st qtr.1996	1.8	-0.2			112.4
July 1995	1.8	2.0	n.a.		116.1
August	1.9	1.8	n.a.		116.3
September	1.8	1.9	n.a.		113.8
October	1.6	1.6	n.a.		115.5
November	1.7	1.3	n.a.		115.6
December	1.8	1.2	n.a.		114.0
January 1996	1.5	0.0	n.a.		112.9
February	1.6	-0.2	n.a.		112.8
March	1.7	-0.3	n.a.		111.8
April	1.5	-0.5	n.a.		110.5
May	1.7	-0.5	n.a.		109.2
June	1.4		n.a.		

■ FRANCE	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	96.0	104.5	101.6	103.4
1987	105.8	98.1	107.8	103.0	104.7
1988	108.6	102.9	111.1	104.1	102.2
1989	112.6	108.2	115.4	105.2	98.7
1990	116.5	107.1	120.6	109.6	103.0
1991	120.2	105.9	125.8	113.4	100.8
1992	123.1	104.3	130.3	115.5	104.3
1993	125.6	101.5	133.5	118.1	106.6
1994	127.7	102.7	135.8		108.3
1995	130.0	109.7	139.0		105.8
2nd qtr.1995	1.6	8.8	2.2		105.8
3rd qtr.1995	1.8	7.8	2.8		106.4
4th qtr.1995	1.9	3.3	2.6		107.2
1st qtr.1996	2.1		3.8		105.7
July 1995	1.5	n.a.	n.a.	n.a.	106.3
August	1.8	n.a.	n.a.	n.a.	106.4
September	2.0	n.a.	n.a.	n.a.	106.6
October	1.8	n.a.	n.a.	n.a.	106.8
November	1.9	n.a.	n.a.	n.a.	107.8
December	2.1	n.a.	n.a.	n.a.	107.1
January 1996	2.0	n.a.	n.a.	n.a.	107.1
February	2.0	n.a.	n.a.	n.a.	106.5
March	2.3	n.a.	n.a.	n.a.	105.5
April	2.4	n.a.	n.a.	n.a.	105.4
May	2.4	n.a.	n.a.	n.a.	105.9
June	2.2	n.a.	n.a.		

■ ITALY	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	105.1	100.2	104.8	102.7	101.3
1987	110.0	103.2	111.6	105.5	102.2
1988	116.6	106.8	118.4	109.7	100.9
1989	123.9	112.9	125.8	112.6	105.3
1990	131.7	117.8	134.7	118.8	112.0
1991	140.3	121.7	147.9	129.5	113.2
1992	147.7	124.0	155.9	134.4	109.6
1993	153.9	128.7	161.6	136.7	95.4
1994	160.0	133.5	167.0	137.9	93.4
1995	166.6	144.0	172.2		90.8
2nd qtr.1995	5.5	8.8	2.3	-3.2	87.0
3rd qtr.1995	5.7	9.0	3.6	9.2	92.0
4th qtr.1995	5.9	7.2	3.9		93.5
1st qtr.1996	5.0	4.8	3.3		95.3
July 1995	5.6	9.2	3.5	n.a.	89.4
August	5.8	9.0	3.4	n.a.	92.5
September	5.8	8.7	3.3	n.a.	94.1
October	5.8	7.9	3.9	n.a.	92.5
November	6.0	7.2	3.9	n.a.	93.4
December	5.8	6.5	3.9	n.a.	95.0
January 1996	5.5	5.9	3.2	n.a.	97.1
February	5.0	4.9	3.2	n.a.	98.7
March	4.5	3.6	3.2	n.a.	99.4
April	4.5	2.6	3.4	n.a.	100.3
May	4.3				103.1
June	3.9				

■ UNITED KINGDOM	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	104.4	107.7	105.1	94.2
1987	107.7	104.9	116.3	107.5	94.6
1988	113.0	108.7	126.2	110.2	101.8
1989	121.8	113.9	137.2	115.1	100.5
1990	133.3	121.0	150.1	122.7	101.4
1991	141.2	127.5	162.4	129.5	104.4
1992	146.4	131.5	173.1	130.5	100.9
1993	148.7	136.7	180.9	130.4	93.2
1994	152.4	140.1	189.5	132.1	94.1
1995	157.6	145.9	197.9	134.2	90.8
2nd qtr.1995	3.4	4.2	4.7	2.8	89.8
3rd qtr.1995	3.7	4.4	4.3	3.2	90.7
4th qtr.1995	3.2	4.4	3.9	4.2	90.2
1st qtr.1996	2.8	3.6	4.0	3.6	90.5
July 1995	3.5	4.5	4.9	4.0	89.9
August	3.6	4.4	4.2	2.6	90.8
September	3.9	4.4	3.9	2.8	91.4
October	3.2	4.4	4.0	3.9	90.8
November	3.1	4.4	4.0	4.2	90.0
December	3.2	4.4	4.1	4.6	89.9
January 1996	2.9	3.8	4.0	2.9	90.1
February	2.7	3.7	4.6	4.2	90.8
March	2.7	3.4	4.5	3.6	90.6
April	2.4	3.2	4.0	3.0	90.7
May	2.2	2.8			91.7
June	2.1	2.6			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Threat of fresh US and UK legal action the only significant remaining obstacle

Voters back Lloyd's recovery plan

By Ralph Atkins, Insurance Correspondent

Lloyd's of London yesterday took another decisive step towards securing its future when the insurance market's annual meeting gave an overwhelming endorsement to crucial parts of its recovery plan.

Some 95 per cent or more of those voting by proxy backed proposed special levies on members underwriting at Lloyd's between 1993 and 1995. These will contribute £440m ($686.40m) towards the financing of the recovery package.

Separately, an attempt by rebel Names to force the future Lloyd's market to make significant extra contributions to the package was rejected by some 85 per cent of voters. Votes were still being counted last night and exact results are expected today.

Failure to win the votes would have wrecked the recovery plan, which includes an out-of-court settlement offer that Lloyd's disclosed was now worth £3.2bn to lossmaking and litigating Names – individuals whose assets have traditionally supported the insurance market. This includes an extra £40m agreed last week for US Names and an unspecified sum for those ruined by losses.

Mr David Rowland, Lloyd's chairman, described the results as "a ringing endorsement".

Individual Names will receive formal settlement offers later this month and then have until August 28 to accept. Opinion polls suggest more than 80 per cent will back the plan. That leaves as the only significant remaining obstacle the threat of fresh legal action in the US or UK aimed at blocking the plan.

Action to destabilise the package is threatened in Virginia but Lloyd's hopes a weekend deal in which most US state securities regulators agreed not to block the plan, would send "a strong signal" to rebel US Names.

Also planning a legal challenge is the Paying Names Action Group, representing those who paid losses during Lloyd's worst years and believe they are being unfairly treated compared with those who refused to pay.

Opening the meeting, Mr Rowland said Lloyd's priorities had to be the settling of litigation and writing off uncollectable debt. "To settle litigation gives benefits to those litigating compared with those who are not, and to write off debt may benefit those who have not paid in comparison with those who have."

But Mr Alan Porter, who led the rebel Names yesterday, warned there were likely to be between 4,000 and 5,000 "refuseniks" who rejected the settlement – "a sufficient body of angry people, able to muster significant resources for litigation, to ensure that Lloyd's will be pursued until the full truth of what happened in the late 1970s and early 1980s comes out".

Colin Beere

Current threat: an action group member hands leaflets of protest to Names arriving for the AGM

Central bank autonomy argued

By Robert Peston, Political Editor

The Bank of England is increasingly convinced that it would gain independent powers to set interest rates under a Labour government, although inflation targets would still be set by the chancellor of the Exchequer.

Policy-makers in the opposition Labour party last night confirmed that the Bank would receive greater autonomy under the party's plans – ahead of disclosures relating to disputes between Mr Kenneth Clarke, the chancellor and Mr Eddie George, the Bank's governor.

On Thursday there will be confirmation – in the minutes of their meeting – that Mr George opposed last month's quarter-point reduction in base rates which Mr Clarke ordered.

The Bank's conviction that it will receive independent powers to set interest rates is based on Labour's outline manifesto, *New Labour, New Life for Britain*, and on talks between its officials and senior Labour representatives.

The outline manifesto says that Labour will "reform the Bank of England to ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation".

The focus on freeing the Bank from "political manipulation" is interpreted by its senior executives to mean that it would receive "instrument independence".

MPs warned of 'backfire' from politically led tax cuts

By Robert Chote and Gillian Tett in London

Politically motivated tax cuts in the UK might well backfire by forcing an increase in interest rates which would leave many households and businesses worse off, Mr Kenneth Clarke, the chancellor of the exchequer, said yesterday.

In evidence to a Parliamentary committee, the chancellor continued his long-term campaign to play down expectations of tax cuts in November's Budget. He warned that the financial markets would punish tax cuts which they did not believe were economically justified.

"If we were perceived to be cutting taxes for political reasons," he said, "we would pay a penalty in higher interest rates which would be damaging for large sections of the population".

Mr Clarke claimed that for many people a 1 percentage point rise in interest rates would more than wipe out the financial gain from a 1p cut in the basic rate of income tax.

The chancellor also mounted a strong defence of his relatively upbeat forecast for economic growth, arguing that it posed no threat to inflation. Mr Alan Budd, the government's chief economic adviser, told the committee that the economy was probably running between 0 per cent and 3 per cent below full capacity.

However, the chancellor's forecasts for a sharp upturn in consumer spending were yesterday challenged by retailers themselves.

Mr Andrew Sentance, chief economic adviser to the British Retailers' Consortium said: "The Treasury's summer forecast of an increase of over 4 per cent in real consumption next year seems rather optimistic – with low wage growth and job insecurity reinforcing consumer caution and limited scope for tax cuts in the year ahead."

Meanwhile, hopes of a pick-up in the housing market were reinforced by a survey from the Royal Institute of Chartered Surveyors. This showed the proportion of estate agents reporting higher prices at its highest since October 1988.

However, this could reflect the fact that supply has yet to catch up with growing demand.

'Brussels interfering in airline alliances'

By Michael Skapinker, Aerospace Correspondent

The European Commission began an investigation into six airline alliances, including the planned tie-up between British Airways and American Airlines, even though it had received no formal complaint against them, a commission official told a House of Commons committee yesterday.

Mr Jonathan Faull, the policy director in the competition directorate, also told the transport committee that the commission had never before carried out a full investigation under article 89 of the Treaty of Rome – the clause under which it is investigating the alliances.

He said although no airline had made a formal complaint against the BA-American alliance, the commission had received "letters of concern".

The planned tie-up between BA and American, announced last month, provides for the two airlines to co-ordinate flights and share revenues from their flights across the Atlantic. The planned alliance, which would control 60 per cent of UK-US flights, is also being investigated by the Office of Fair Trading.

Mr Robert Ayling, BA's chief executive, said last week that he did not believe the commission had the right to interfere in alliances outside the European Union.

Three US airlines said the alliance would give the carriers too much power. Mr David Coltman, senior vice president of United Airlines, said it should be allowed to go ahead only if other US carriers received new take-off and landing slots at London's Heathrow airport.

Mr Barry Simon, senior vice president of Continental Airlines, attacked the "sheer audacity" of the alliance. He said: "Heathrow is effectively closed."

Mr Robert Coggin, vice president of Delta Air Lines, said BA and American would have a monopoly on nine routes between London and the US.

UK NEWS DIGEST

BBC standards 'will not suffer'

Sir Christopher Bland, the chairman of the BBC, said last night that the government had been given formal assurances that the performance of the World Service would not be damaged by a planned managerial reorganisation.

"The authority of the World Service will not be reduced by the changes. John Birt [the BBC director-general] and I have given an undertaking on that to the Foreign Office, and I personally will not agree to proposals which risked any diminution in quality," Sir Christopher told the Radio Academy. The World Service is funded by the Foreign Office.

Sir Christopher said that under the reorganisation plans the World Service would remain a separately managed BBC directorate responsible for administering its grant and scheduling and commissioning its own programmes. However, the production of programmes would come from BBC News and BBC Production. The changes were designed to make the World Service more cost-effective at a time when the government was making cuts totalling £14m ($21.84m) in capital and operational budgets between now and 1998.

Mr Birt also defended the planned changes and argued that the World Service was not "like a statute in the garden that needs preserving". He said the managerial changes, which will unite radio and television under the same management structure and separate the commissioning and making of programmes, would produce real benefits. *Raymond Snoddy*

■ BCCI COLLAPSE

Islamic banks' claim fails

Attempts by two groups of creditors of the collapsed Bank of Credit and Commerce International to win special treatment and be paid first, and in full, failed in the High Court in London yesterday. The claims threatened the expected payment of 20p in the pound to ordinary creditors in a first dividend scheduled for this summer. Liquidators at Deloitte & Touche in London said a group of Islamic banks, led by the Faisal Islamic Bank, had failed in their claim for up to $600m.

Former employees had also failed in a claim of $400m related to the bank's Staff Benefit Fund. A third claim related to the bank's Provident Fund, for $38.5m, was referred to the courts in Luxembourg. "The English liquidators are extremely pleased with the results of the weeks hearings. The threat of $1bn of provisions having to be made is removed and these funds are now available for the dividend payment." A further court hearing today will look at the rules governing the dividend payment. *Jim Kelly*

■ MEDICINES

Call to protect price-fixing

Up to a quarter of the UK's pharmacies and 3,000 jobs will be at risk if price-fixing on non-prescription drugs is abolished, pharmacists warned yesterday. The Community Pharmacy Action Group, citing independent research by the accountants Deloitte & Touche, said that more than 3,000 UK pharmacies could be hit.

It was responding to an investigation into Resale Price Maintenance by the Office of Fair Trading and a high-profile campaign by supermarket group Asda to have RPM scrapped. RPM, a £1.2bn ($1.87bn) a year market, is the UK's last legal price-fixing arrangement, allowing manufacturers to set the shop prices of a range of health aids, cold cures and vitamin products. The CPAG also warns that pharmacies that survived would stock a narrower range of medicines. It claims that a typical pharmacy stocks some 700 lines – 10 times the number found in an average supermarket. *Christopher Brown-Humes*

■ SHARE SETTLEMENT

Crest launches on schedule

Crest, the automated share settlement system for the City of London, started operating on schedule yesterday. The system, which was inaugurated by Mr Kenneth Clarke, the chancellor, will only settle its first trade next month.

Its first use came when two stockbroking firms, Kleinwort Benson and Redmayne Bentley, placed instructions to settle trades in the shares of English China Clays, one of the 14 companies whose shares will settle first in Crest.

Mr Clarke said the inauguration of Crest, which has been develop by the Bank of England at a cost of £29m over three years, "will help keep London at the cutting edge as one of the world's leading financial institutions".

The system operated without problems, although Crest has extended software trials for participants to enable them to test minor alterations. The first heavy use should come in October when the first FTSE-100 shares are settled. *John Gapper*

Pace quickens in race for Bosnian trade

Companies are worried overseas competitors may have the edge

One of the few successes in Bosnia for British companies has been an order worth tens of thousands of US dollars for spare train engine parts to help rebuild part of Bosnia's devastated transport system.

The order was awarded this month to the Glasgow-based Turner group of industrial companies amid complaints that British companies have been lagging behind European rivals in establishing trade links with the country.

Comparisons have been made with Kuwait where, following the Gulf war, British groups were beaten by US rivals for the bulk of reconstruction work. Mr Mickey Kantor, the US commerce secretary, last week flew to Dubrovnik to promote US trade initiatives.

But Mr Martin Laing, the chairman of construction group John Laing who recently led a trade mission of 20 British companies to Bosnia, said comparisons with Kuwait were mischievous. US companies in Kuwait were in a much stronger position given the country's dominant role in the Gulf war.

He said it was not too late for British groups such as Turner to position themselves to win substantial work in Bosnia. Very few contracts had been awarded in the country so far. Aid budgets had only just been agreed and there was still a substantial gap between realised funds and money promised.

Mr Laing advised groups seeking work in the country to form joint ventures with local companies to increase their chances of winning contracts. So far, $5bn of aid over three years has been been pledged by the World Bank, the European Bank of Reconstruction and Development, the European Union and other donors, including the UK government.

Companies on the Department of Trade and Industry mission complained that, unlike other countries, the UK government had not made offers of aid conditional on British companies being awarded contracts for specific projects.

Martin Laing: urges British groups to persevere in Bosnia

Mr John Davie, a project manager with Vector, the aviation and transport management consultants, said: "Sweden and the Netherlands have tied bilateral aid to ensure their domestic companies win telecommunications contracts and work on rebuilding Sarajevo airport. The Germans have also been very active in this area."

Ericsson, the Swedish telecommunications group, announced last Thursday that it had signed a contract with PTT of Bosnia-Herzegovina for a mobile telephone system for Sarajevo and three other principal cities.

The few British businesses with operations in Bosnia say they are substantially outnumbered by mainland European companies which have established trading links in the region.

Mr Khatib Alam, the manager of operations in former Yugoslavia for GHK International, the UK-based economics, management, and engineering consultants, has worked in Mostar for almost two years.

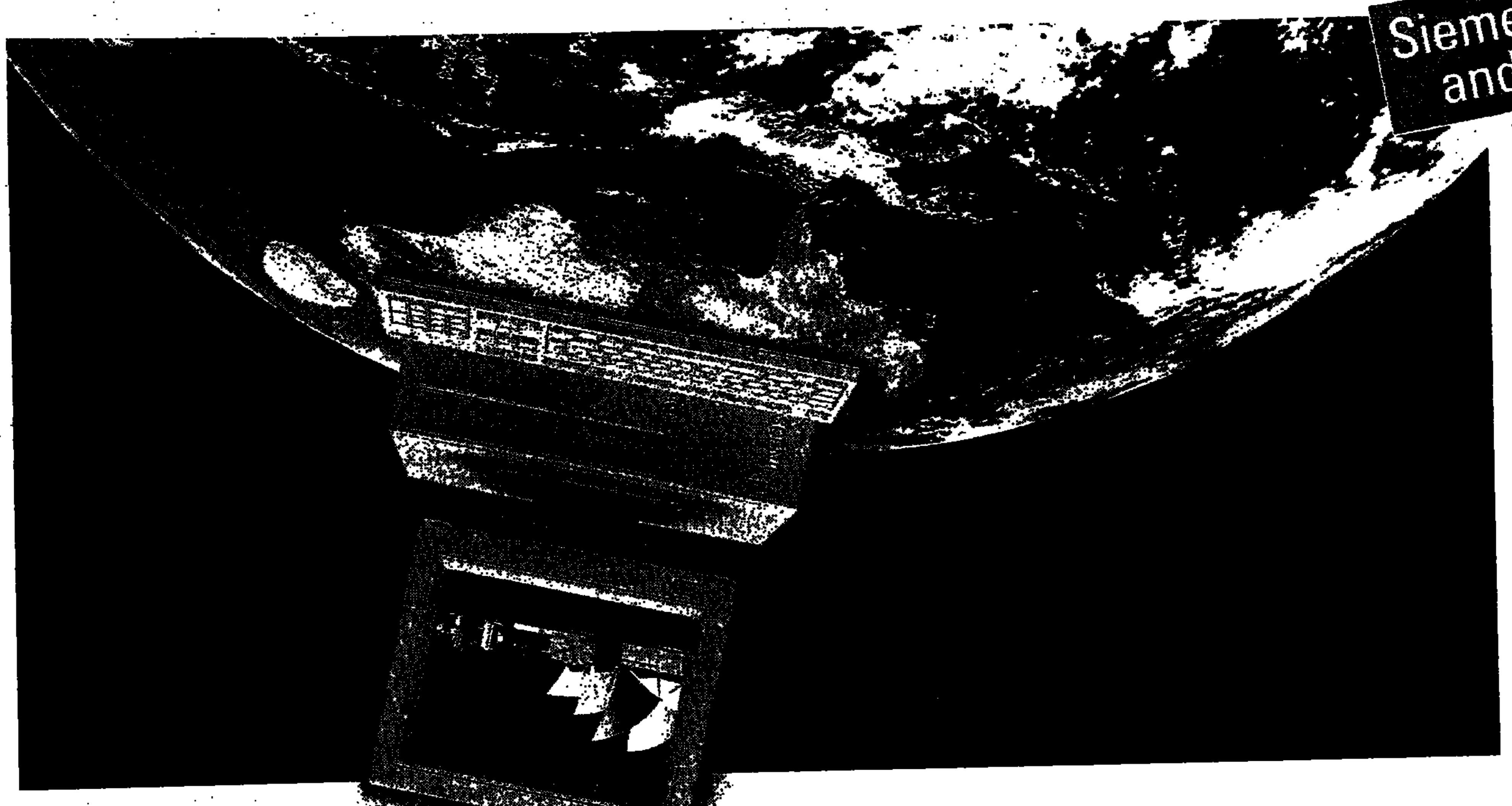
He said: "British companies must be prepared to invest, even if only to finance feasibility studies, which can be later used to attract aid as projects get under way."

Andrew Taylor

SIEMENS NIXDORF

INFORMATION TECHNOLOGY IT WORLD NEWS

Siemens Nixdorf and Partners



The breathtaking pace of development in the IT sector is being paralleled by growing customer expectations: in terms of hardware and software, services and vertical market expertise. What's wanted are all-encompassing solutions that are precisely tailored to the customer's individual needs. Under its User Centered Computing approach, Siemens Nixdorf is partnering leading solutions providers and consultants to provide the best possible solutions for the user.
Siemens Nixdorf has launched an innovative partner management program with the aim of intensifying its international partnering agreements. Numerous activities – ranging from sales and marketing support to strategic alliances – are fostering Siemens Nixdorf's various partnerships.

Coopers and Lybrand, SAP and Siemens Nixdorf

Sydney: Australia's first R/3 retail solution debuts at BBC.

A project called ACCESS is helping to keep Australia's premiere hardware retailer BBC Hardware in the success lane.
Under the project management of Siemens Nixdorf, a team of partners – including Coopers and Lybrand, one of the world's largest consultants, and SAP* with its R/3* Industry Solution retail application – joined forces to successfully develop this enterprise information system.
The hardware platform consists of the largest massively parallel processing servers in the RM family, numerous Beetle POS systems, Primergy servers and SCENIC PCs. Siemens Nixdorf's TransView software is being used for nationwide network management across all system platforms. This assures smooth and dependable communications between headquarters and BBC's more than 200 stores, all the way through to the individual Beetle terminals.
From merchandise management to accounting, BBC has thus been able to deploy the first do-it-yourself installation of this magnitude, the first R/3 IS retail solution and the first TransView site in the land down under.

Informatics Ltd. and Siemens Nixdorf

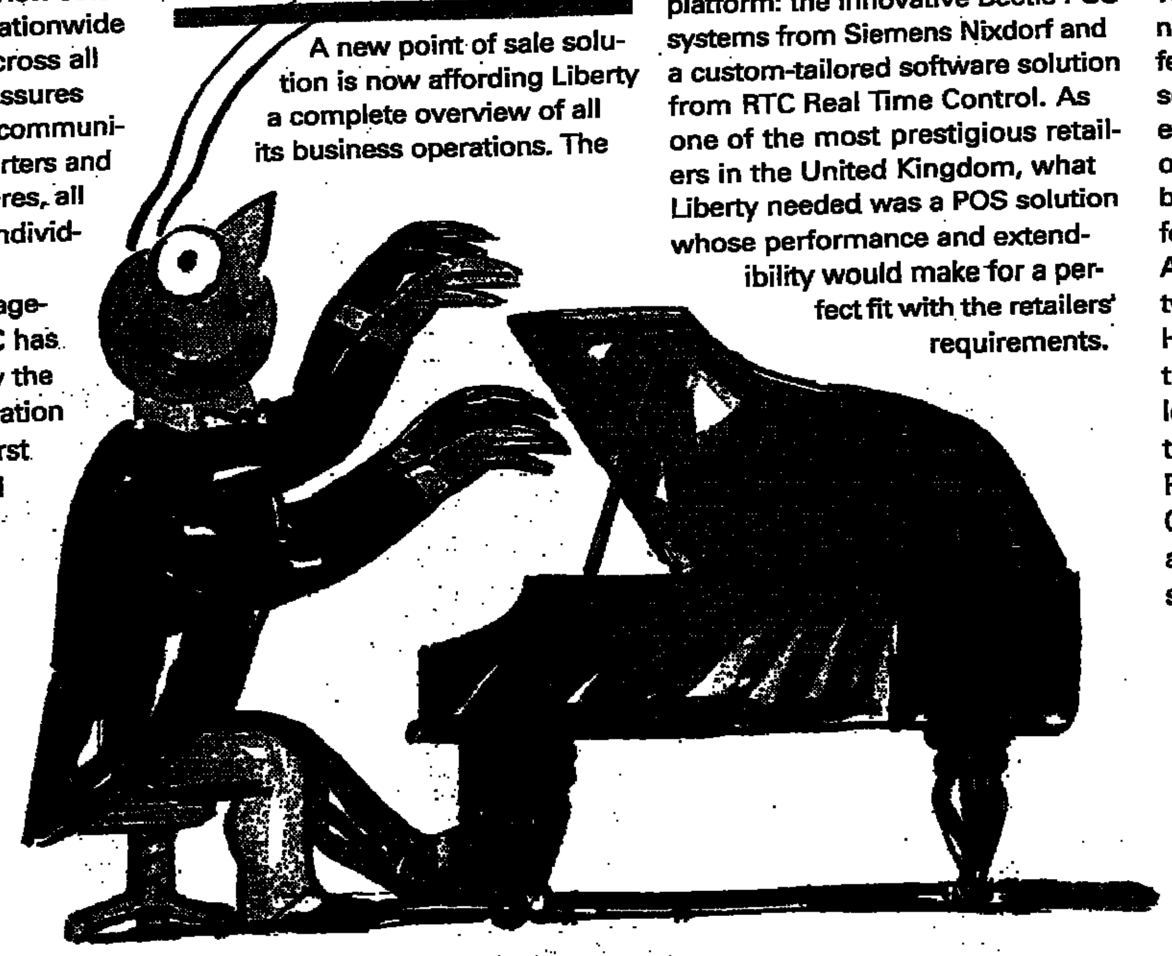
Colombo: An IT solution for cellular phone service provider Celltel that's making waves around the world.

The word spreads quickly, when it comes to intelligent solutions for mobile communications. The Infocel software solution had initially been intended for Celltel, Sri Lanka's largest cellular phone service provider. But thanks to its innovative concept, Infocel now enjoys marketing opportunities throughout the world. Pakcom in Pakistan, a subsidiary of Millicom International Cellular Company USA is just the beginning. This development comes as no surprise: because Siemens Nixdorf's partner in Sri Lanka, Informatics Ltd., is one of the country's largest IT players with customers throughout Asia, as well as in the United States and Europe. What Siemens Nixdorf added to Infocel was the power of its UNIX* servers.
Automated billing and collections, as well as flexible adaption to changing tariff structures, special rates and monitoring high user traffic patterns are the key features of the innovative Infocel solution.
The benefit to Celltel Sri Lanka: within the space of only two years, this cellular service provider has been able to more than quadruple its customer base.

RTC and Siemens Nixdorf

London: Beetle POS a smash hit at Liberty.

A new point of sale solution is now affording Liberty a complete overview of all its business operations. The platform: the innovative Beetle POS systems from Siemens Nixdorf and a custom-tailored software solution from RTC Real Time Control. As one of the most prestigious retailers in the United Kingdom, what Liberty needed was a POS solution whose performance and extendibility would make for a perfect fit with the retailers' requirements.
With RTC, Liberty now has a partner at its side who can do a perfect job of deploying the complete solution. One of the largest dealers and systems developers for open business systems, RTC has been a Siemens Nixdorf partner for years.
A successful pilot installation in two Liberty retail outlets at Heathrow Airport was followed by the deployment of this forward-looking sales information system that includes more than 100 Beetle POS terminals.
Customers, staff and management are all benefiting from the new solution.



SIEMENS NIXDORF

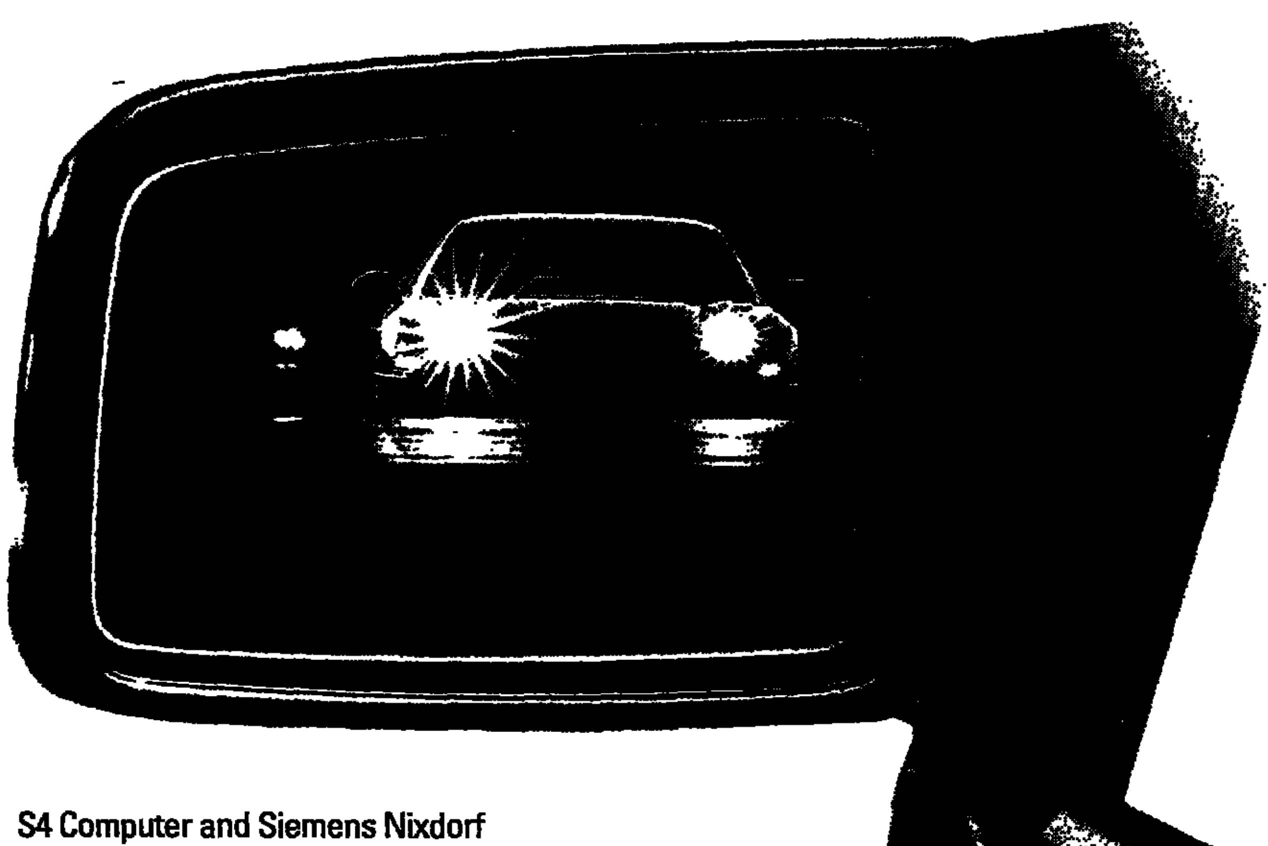
GVD Leasing and Siemens Nixdorf

Wiesbaden: Notebook leasing puts even more speed and flexibility into R+V's field organization.

German insurer R+V Versicherung responded quickly and flexibly to the growing needs of the insurance market by consolidating all of its field activities and equipping its more than 4,000 agents with powerful, uniformly configured notebooks. The breathtaking pace of development in the PC sector, coupled with anticipated expenses for service, support and disposal, made leasing the obvious alternative. Which quickly led to new problems: the need to find one vendor who would be able to offer the right solution in terms of both technology and financing. And who would have sufficient capacity to supply all the notebooks, along with proven staying power and comprehensive, nationwide service.

A decision was quickly reached to go with Siemens Nixdorf, a specialist in innovative hardware solutions, and its established financing partner, GVD Leasing. Working in close cooperation with R+V, it was possible to put together a contract package that was both complex and flexible: a customer-specific lease term, preinstallation of the customer's own software, as well as support and update service. Plus the ability to respond flexibly to technological developments and changing customer needs.

The customized structure of the contract package and the innovative financing model are unique in the IT market. R+V is completely satisfied with this complete service.



S4 Computer and Siemens Nixdorf

St. Martin: Opel Kirchberger is leaving the competition in its dust with its new IT system.

The deployment of an innovative communication system at Austria's Opel dealerships is now affording them a high-speed link to the factory.

As a Certified Vendor, Siemens Nixdorf's Austrian distributor, S4 Computer was responsible for handling the extensive installation. The platforms: the DCS2 Dealer Communication System and its integration in the GODICS dealer system.

DCS2 assures Austrian Opel dealers transparent logistics in parts and new vehicle ordering, as well as in warranty claims administration, through direct communication with the Opel factory. Because, especially in the automotive industry, fast communication between factory and dealer represents a major competitive factor in catering to the needs of local customers.

And that's just what it does at Opel Kirchberger, whose three locations and car sales of some 1,500 new vehicles and 1,500 used vehicles a year make it one of Austria's largest Opel dealerships.

With the SCO computers and the more than 40 router-networked SCENIC PCs that were installed by S4 Computer, Opel Kirchberger now offers its customers even more flexibility and is leaving its competition in the dust.

Oracle, Pyramid and Siemens Nixdorf

Minnesota/Bristol: Creative data warehousing makes well-known retailers even more creative.

Oracle Corporation and Pyramid Technology, Siemens Nixdorf's U.S. subsidiary, have a long and mutually beneficial track-record of bringing business-critical, enterprise solutions to corporations around the world.

The two companies have teamed to provide powerful solutions that centralize a company's most critical information into a single, easily accessible, extraordinarily powerful data warehouse.

One company, who has benefited from the combined power of Oracle and Pyramid solutions is Damark International. Damark, a $500 million dollar direct marketer of eight categories: merchandise computers, electronics, video, audio, housewares, home office, sports and fitness. Through the Preferred Buyers Club™, started in 1987, members receive special discounts on merchandise and other benefits. Damark relies on two Pyramid Nile 150 Servers and two Nile 100s in Reliant Clusters, running Oracle Parallel Server and applications to analyze customer needs. Since turning to Oracle and Pyramid, Damark's system downtime has been dramatically reduced and system availability has increased significantly. The next step calls for the introduction of a data warehouse solution. Damark's goal is to better understand its customers' needs and to develop targeted direct mail strategies aimed at attracting new prospects and boosting dollar-volume per catalog mailed. With the competitive edge afforded by a data warehouse, Damark can continue to aggressively expand club membership.

Another retailer now benefiting from Siemens Nixdorf's experience is the British supermarket chain, Somerfield. At the Somerfield Group, a comprehensive data warehousing solution has now been deployed at Somerfield's head office, impacting 600 stores nationwide. The platform: the largest servers in the RM family from Pyramid and Siemens Nixdorf.

Somerfield hallmarks are its neighborhood locations, a high quality range of products and the uncompromising freshness of its foods. The joint solution from Pyramid and Oracle allows Somerfield to assure that these standards are always satisfied – even in smaller locations – and to effectively combat supply bottlenecks.

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IN BRIEF

Repap opens hunt for merger partner

Repap, one of North America's biggest coated paper producers, has put itself up for sale as part of consolidation in the forest-products sector. The Montreal-based group, which has a current market value of about C$650m (US$477m), said it had been approached by several international forestry groups with a view to a merger or takeover. Repap shares fell 30 cents to C$4.90 in early trading after the announcement. The group said it had hired Dillon Read, the US investment bank, as an adviser.

Mediaset shares shrug off concerns
Shares in Mediaset, the Italian television and advertising company, shrugged off regulatory uncertainty, a depressed market and the indictment of Mr Aldo Livolsi, the group's chief executive, to reach a 4.5 per cent premium over the offer price on their first day of official trading. Page 21

US brokers give strong performance
Donaldson, Lufkin & Jenrette and PaineWebber, the US brokerages, provided further evidence that conditions remained favourable for US brokerages as both published strong second-quarter results. DLJ raised net income for the quarter to $97m, from $42m a year earlier, while PaineWebber rose to $92.2m from $35.4m. Page 20

CPC International warns on third term
CPC International, the US food company, saw net profits rise 8 per cent to $158.9m, or $1.04 a share, in the second quarter, but issued a warning for the third quarter. Page 20

Iveco considers S American plants
Iveco, the commercial vehicles arm of Italy's Fiat industrial group, is in advanced talks on building truck plants in Brazil and Argentina. A decision on the projects, which together could cost more than $200m, is expected this year. Page 21

WMC to expand Olympic Dam operation
WMC, the Australian resources group which has shortened its name from Western Mining, is to go ahead with a A$1.25bn (US$996m) expansion of its large Olympic Dam operation in South Australia which could more than double the mine's output of copper and uranium. Page 22; Improved prices offset output fall at Gengold mines, Page 22

UK group rejects bid for US associate
Pentland, the UK sportswear and consumer products group, threatened to spoil an agreed takeover of Authentic Fitness Corporation, a US associate company, by rejecting a $93m (£59.6m) offer for its 23 per cent holding. Page 23

Nikkei rises despite rate rise concerns
In Tokyo, the Nikkei 225 index rose in spite of reports of an imminent rise in the official discount rate. The index gained 96.97 to 21,753.42. Page 40

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
DLW	99.9	+	3.9
Horten	223.5	+	2.5
Kali & Salz	234	+	7
Falls			
BHE	978	-	19.5
Porsche	870	-	10
VEW	465	-	25
NEW YORK ($)			
Rises			
Craig Corp	14¾	+	1⅛
Falls			
Boise Casc	28¾	-	4½
Delta & Pine	27½	-	6¼
GRC Intl	20¾	-	3¾
Safeguard Sci	56⅞	-	10
Wackenhut Cor	24½	-	3½
LONDON (Pence)			
Rises			
Emotional Uts	187½	+	7½
Pressac	74	+	7
Falls			
Cardcast	73	-	7
Eidos	882	-	82
First Choice	54	-	10
Hampden Grp	90	-	8
TORONTO (C$)			
Rises			
Enerflex Sys	27.00	+	1.00
Gold Reserve	12.55	+	0.80
Falls			
Bovar	33.50	-	1.80
Euro-Nevada	32.30	-	1.70
Newbridge Net	72.50	-	3.80
Rogers Cantel	30.00	-	1.30
PARIS (FFr)			
Rises			
Bouygues	520	+	40
SGTE	759	+	63
S.I.P.H.	227.5	+	22.5
Falls			
Essilor	1005	-	47
Fromageries	4700	-	50
SAT	1552	-	92
TOKYO (Yen)			
Rises			
Asahi Glass	1260	+	20
Kubota	704	+	18
Meiji Milk	698	+	23
Yuasa	708	+	24
Falls			
Calsonic	875	-	25
Cosmo Oil	666	-	15
HONG KONG (HK$)			
Rises			
Chi Mer Hdb.	2.475	+	0.225
Kwong Sang	2.85	+	0.25
Lewis Intl.	1.18	+	0.26
Falls			
ASM Pacific	5.65	-	0.30
GPL Intl.	8.85	-	0.20
YGM Trading	10.25	-	0.35
BANGKOK (Baht)			
Rises			
Allocated Hsp	40.50	+	3.00
Thai Agri Food	14.75	+	1.25
Union Pioneer	20.75	+	1.75
Falls			
Bumrungrad Hos	68.50	-	8.50
K.R. Precision	140.00	-	15.00
TPI Polene	101.00	-	8.00

New York & Toronto prices at 12.30.

British Energy shares slide on first day

By Patrick Harverson and Stefan Wagstyl in London

The UK government's last big privatisation before the next general election got off to a poor start yesterday when shares in British Energy, the nuclear power group, fell sharply on their first trading day in the worst debut by a newly privatised company in the UK in nearly a decade.

The partly-paid stock closed down at 94p, leaving more than 800,000 British private investors and many institutions around the world nursing first-day losses of more than £50m ($77.5m). Retail investors paid 100p a share in a first instalment, and institutions 105p. A second instalment of 98p is due next year.

The government, the company, and BZW, the broker handling the issue, blamed the price flop on the general weakness of the stock market, which drove the FTSE 100 index down 80 points yesterday to below 3,700.

However, many City analysts said the shares had been expensive in comparison with other electricity stocks and had suffered from concern about the disclosure last week of faults at two of British Energy's eight power stations.

Traders said BZW tried to hold the price up by buying the shares, but selling by institutions thwarted its attempt. Mr Nicholas Pink, analyst at SBC Warburg, the broker, said: "The most common valuation comparison used by the stock market is the yield on the shares, and in those terms it was an expensive stock compared to some other utilities."

Mr Robert Hawley, the British Energy chief executive, bought 45,000 shares yesterday. He said he was "a little disappointed" with the price fall. "But from the company's point of view, things have gone very well. We have completed our privatisation and the management can look forward to the future."

Mr Tim Eggar, the industry minister, put a brave face on events, saying the government was delighted. "We have completed the final stage of the privatisation of the electricity industry and in the process have raised over £2bn for the taxpayer."

Labour condemned the flotation as "a damp squib". It called on the government to explain why the announcement of the closure of two UK reactors because of cracks in steam pipes was made on Wednesday night, just after the deadline for small investors to apply for shares had passed. Mr Eggar and Mr Hawley denied that information had been kept from the public. Mr Hawley said the reactors were closed for checks and repairs on Tuesday, as soon as the faults were found. The board made the announcement the next day.

British Energy's first-day performance was the worst by a newly privatised issue since British Petroleum shares were offered just before the October 1987 stock market crash.

The British Energy sale was planned to raise £2.6bn, including debt, about £500m more than has been achieved.

US mobile telephone group has been linked with Vodafone as it expands worldwide

AirTouch roams the globe with a natural born ally

AirTouch Communications, the San Francisco-based mobile phone company, is a classic case study of the pros and cons of demerger. Its spin-off two years ago from Pacific Telesis, the Californian local phone company, offered all the advantages of specialisation and focus. It also put it strategically at odds with the rest of the US phone industry.

The deregulation of US telecoms has sent other phone companies scrambling to provide a full range of services. AirTouch has done the opposite: rather than fight on all fronts in the US, it is pursuing a goal of mobile telephony around the world.

By one measure, the strategy seems on course. While AirTouch's sales and earnings are only a fraction of its former parent's, its market capitalisation is roughly the same. Meanwhile, Pacific Telesis, weakened by the spin-off and buffeted by deregulation, has agreed to merge with a larger local phone company, SBC Communications.

With 2.5m customers in the US and 1m outside, AirTouch recognises one peer in the international mobile phone business: Vodafone of the UK. The two have been talked of as candidates for merger. AirTouch prefers to talk in terms of natural allies. "Together, we are a global wireless company," says Mr Arun Sarin, AirTouch's international head. "We're partners in Sweden and compete in Germany, but otherwise there are no overlaps.

"We can accomplish 90 per cent of what we want without formal equity links. But we constantly discuss informally what products we can put into the marketplace. We've often talked about putting our German and their French systems together, with no land lines required. But we don't have a product to announce, because there's not huge demand yet."

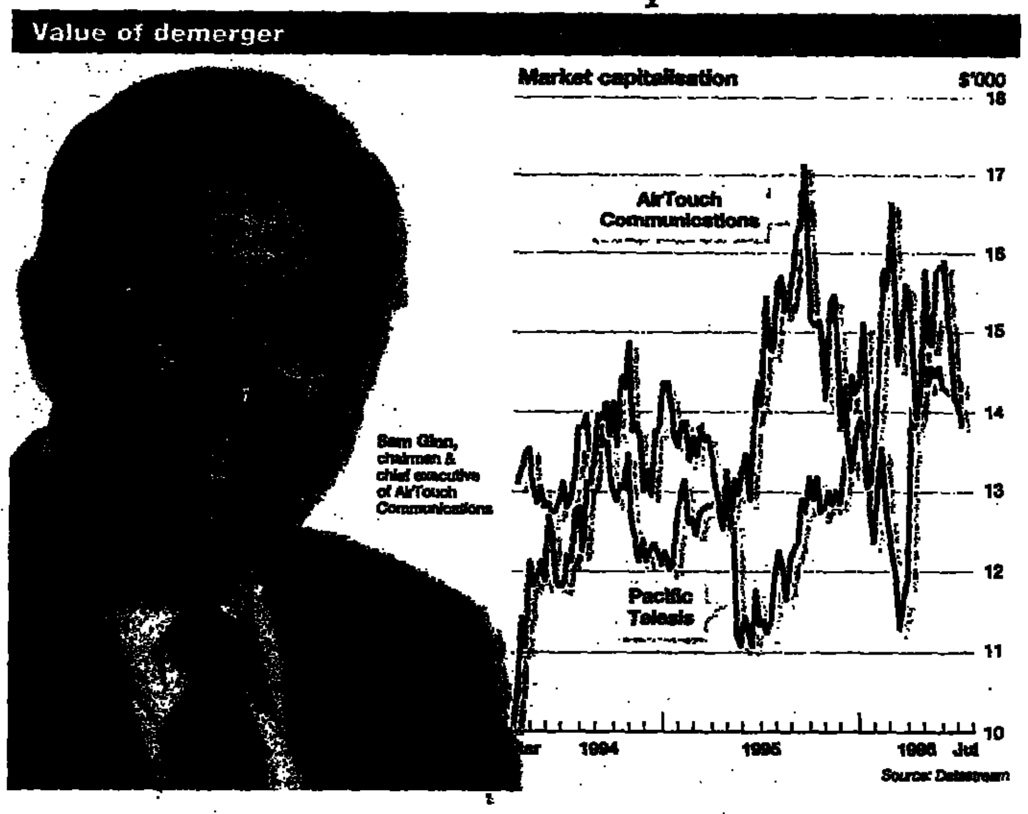
A challenge to such plans comes from alliances between conventional phone companies, such as AT&T's WorldSource. AirTouch dismisses this. "AT&T and BT and Deutsche Telekom can't put together a global cellular strategy," Mr Sarin says. "They could have done it 10 years ago, but it's too late."

Instead, he suggests, these companies could use AirTouch as a supplier. "If a company like us becomes global, we can sell them a global product using some of the proprietary elements of their network which we can embed in our products."

Meanwhile, AirTouch continues to grow much faster outside the US than within it. This is partly because most markets are less mature than the US. It is also because AirTouch is aggressively chasing new cellular licences around the world. According to Mr Sam Ginn, its chairman, by the early years of the next century it should have half its subscribers abroad.

One apparent snag is that AirTouch's international business loses money. Mr Ginn is unconcerned. The idea is for each new market to produce positive cash flow within three years, and the company has yet to miss that target. "The reason for the lack of profit is that we continue to win new opportunities."

Value of demerger



So what could go wrong? First, it is not clear how many mobile phone users will want to place international or long distance calls. If most do not, AirTouch will be left not with a global network, but with a collection of individual cellular properties.

In the US, for instance, acquisitions are extending the AirTouch brand into 40 states. Plans to employ the brand in the north east, through an alliance with the local phone companies Bell Atlantic and Nynex, have been frustrated. However, AirTouch is also attacking the lower end of the market nationally with a separate cheap-and-cheerful brand, and has launched an up-market digital brand in California.

But how important is a national brand? It will appeal to some large business customers: but as Mr Ujjal Kohli, AirTouch's head of US marketing, concedes: "Most customers are not interested in a national footprint. Their needs in Los Angeles are satisfied in the LA market."

The same may be true globally. The important thing, Mr Sarin says, is to have a strong position within a country. Then come regional alliances, covering, say, the Nordic countries. "Then comes an EU view, then EU-US, then global," he says. "Most of the time, the value of cellular phones is local, and it diminishes as you work outwards. Only a small group of customers are interested in a worldwide view."

There remains one fundamental threat: that rather than deal with a specialist cellular company, customers will take an entire communications package, including cellular, from a large group such as AT&T. The scope for so-called bundling of services is one of the most vexed topics in the US phone industry. There will be no clear answer until the effects of deregulation have worked through. As the industry is united in saying, only the market can decide.

But if the AirTouch strategy is risky, it has strengths. One of the chief motives for the spin-off was to avoid the more traumatic consequences of US deregulation. It frees the company to concentrate on growth overseas, while its rivals grapple with strategic complexities at home.

Tony Jackson

Coca-Cola leaps 20% in second quarter

By Richard Tomkins in New York

In the war of red versus blue, Coca-Cola yesterday appeared to be beating off a new challenge from PepsiCo, the rival US soft drinks maker, when it reported a 20 per cent jump in earnings per share in the second quarter.

Sales rose 8 per cent to $5.2bn, net income rose 17 per cent to $1.05bn and earnings per share, lifted by the company's share repurchase programme, rose from 35 cents to 42 cents.

At the beginning of the second quarter, PepsiCo unveiled Project Blue, a $500m campaign to wrest market share from Coca-Cola in international markets by re-launching Pepsi-Cola in a blue can. Coca-Cola's house colour is red.

However, Coca-Cola's figures seemed to show few effects from the move. Worldwide volume rose more than 8 per cent in the quarter, at the top end of the company's long-range target of 7-8 per cent annual growth.

Coca-Cola said the latest results were especially notable since the strength of the prior year's second quarter made for a difficult comparison. In the year-earlier quarter, worldwide volume rose by an unusually large 10 per cent and earnings per share rose 21 per cent.

Mr Roberto Goizueta, chairman and chief executive, said: "This company is piling growth on top of growth, and that equals strong performance today and continued vast opportunity for tomorrow."

Coca-Cola's share price has soared amid investor enthusiasm for the company's prospects in the newly-opened markets of eastern Europe and Asia.

Last year the shares rose 44 per cent.

Mr Goizueta yesterday predicted Coca-Cola was heading for another good year as it prepared for the publicity it would get from its sponsorship of the Olympic Games.

In North America, Coca-Cola's volume rose 7 per cent in the second quarter. The company said the biggest factors were new packaging strategies, including the contour plastic bottle for Coca-Cola, and the build-up of promotional activities linked to the Olympics.

In Europe, volume surged by 12 per cent after a similar increase a year earlier, with some of the biggest gains coming from new markets in eastern and central Europe.

Lex, Page 18

Escom in bankruptcy moves

By Peter Norman in Bonn

Escom, the German personal computer group, yesterday became subject to bankruptcy proceedings after an attempted restructuring of the company's affairs failed because of insufficient liquidity.

The district court in Bensheim, near the group's Heppenheim headquarters, said yesterday it had opened bankruptcy proceedings for the Escom holding company and other German subsidiaries. However, Escom Business, which provides networks to corporations, and Cube, a subsidiary of Escom Business, were unaffected by the move. Escom-Vertriebs, the subsidiary that operates Escom shops in Germany, was put into sequestration, a legal state that will allow further investigation into whether it has a viable future.

Yesterday's move came less than a fortnight after Escom, Germany's second biggest computer retailer, had sought protection from its creditors in Vergleich or composition proceedings similar to those provided by US Chapter 11 rules and which were to give it time to reduce and reschedule its debts.

The court appointed Mr Bernhard Hembach, a Frankfurt lawyer, as the bankruptcy administrator. Mr Hembach applied to make Escom bankrupt yesterday after it became clear that it would not be able to meet 35 per cent of its creditors' claims as required in German composition cases.

Mr Hembach said yesterday he was unable to put a figure on the group's indebtedness. He said he was optimistic for the future of Escom Business, which was 84.3 per cent owned by Escom, adding that he might have a buyer for that company this week.

The fate of Escom's many foreign subsidiaries was unclear yesterday although Mr Hembach said the Netherlands unit had sought court protection from its creditors. Receivers were appointed at Escom UK, which has 168 remaining stores after closing 74 outlets two weeks ago.

Siemens, whose Siemens Nixdorf computer-making subsidiary holds 12.5 per cent of Escom, said yesterday that it would make a "double digit D-Mark million" write-off in respect of its Escom holding.

Escom employs about 4,000 people in Europe and recently warned that losses last year would total DM180m ($118m) on turnover of DM2.35bn. Its shares closed yesterday at DM1.42, down from DM1.85, and a high this year of DM22.50.

Siemens overcomes domestic slowdown with 18% advance

By Wolfgang Münchau in Cernobbio

Siemens, the German electronics company, yesterday shrugged off a bigger than expected decline in its domestic business as it announced an 18 per cent rise in third-quarter net profits.

While the overall result was broadly in line with expectations, Siemens is now relying heavily on its foreign activities for its profitability, partly a reflection of the German recession and a weaker currency.

The semiconductor business, last year the largest contributor to profits, has suffered from a steep decline in the prices of memory chips, but remained the best performer overall. The transportation division, which makes the ICE high-speed train, saw orders fall 27 per cent.

In Frankfurt, Siemens was yesterday one of the most heavily traded stocks, its shares rising 90 pfennigs to DM80.45 helped by hopes of a dividend rise. Mr Karl-Hermann Baumann, finance director, had earlier said if earnings allowed, "we will do something about the dividend".

Mr Heinrich von Pierer, chairman, said the company stuck to the goal of a 20 per cent rise in net earnings during the current financial year. In the first nine months, net profits rose 18 per cent from DM1.41bn to DM1.65bn ($1.08bn). International sales rose 15 per cent, while domestic sales declined 3 per cent because of the German recession. New orders were up 14 per cent.

The goal of a 20 per cent rise is widely expected to be achieved because sale proceeds will fall due in the final quarter.

But analysts also expressed caution. Mr Peter-Thilo Hasler, analyst at Vereinsbank Research, said the transportation division, which suffered a 9 per cent fall in sales, "is structurally the weakest division. It continues to lose ground against the competition. If they were to continue pulling this ailing division along, then the outlook for shareholder value is not very promising."

Siemens' restructuring programme, known internally as "top", has yielded productivity savings of about DM7.5bn, but most of that was eaten up by price falls.

Lex, Page 18

US brokers' resilience surprises analysts

By Maggie Urry in New York

Further evidence that conditions remained favourable for US brokerages came from Donaldson, Lufkin & Jenrette and PaineWebber, which both published strong second quarter results yesterday.

Analysts of the sector have been surprised by the continued strength of investment banks' earnings, and with the markets weakening are predicting a slowdown in coming months. Despite the market's weakness yesterday, DLJ's shares rose $⅝ to $29⅞ in early trading, while PaineWebber's shares were unchanged at $21.

DLJ, which is 80 per cent owned by The Equitable, beat analysts' forecasts by a wide margin, reporting earnings per share of $1.53 compared with a consensus estimate of $1.05. In the same quarter of 1995, DLJ earned 72 cents, and in the first quarter of this year earnings per share were $1.01.

Net income for the quarter was $97m, compared with $42m in the same three months of 1995, and $65.1m in the first quarter of this year.

The broker, which floated in October last year, benefited from a larger share of an active underwriting market, and from the sale of its remaining investment in G-Tech Holdings, the lottery company, which contributed 30 cents a share to second quarter earnings.

Although revenues from trading slipped from the high level of the first quarter, from $143m to $132m, revenues from other sources increased. Underwriting income jumped from $135m in the first quarter to $256m in the second, more than double the $119m of underwriting revenue in the second quarter of 1995.

DLJ's rise through the underwriting league tables has continued, and for the first half of 1996 it stood in fourth place in the table of disclosed fees from domestic public issues, with a market share of 8.4 per cent up from 6.1 per cent a year ago.

At PaineWebber, earnings slipped in the first quarter from 92 cents a share to 86 cents, although they were sharply higher than the 28 cents in the second quarter of 1995. The result beat the consensus forecast of 83 cents a share. Net income was $92.2m in the second quarter, compared with $35.4m in the same period of 1995, and $101m in the first quarter of 1996.

Ms Regina Dolan, chief financial officer, said some uncertainty among investors following the rise in bond yields had affected trading in fixed-income products in the second quarter, although revenues were still at high levels.

She said that inflows from retail customers had continued at around $1bn a month. Some investors were nervous of equities after recent market falls, but were directing their cash to other products. She said it was too early to predict the outcome for the third quarter.

Banks maintain earnings in second quarter

By Richard Waters in New York

The spectre of higher credit card and consumer loan losses, and fears of higher US interest rates, may have hit US banks' shares in recent weeks. But as of the second quarter of this year, at least, the industry's solid earnings gains continued, according to results from a number of banks yesterday.

Of four big US banks which reported earnings for the period, two – NationsBank and First Chicago NBD – registered notable increases in credit losses over a year before. Wall Street has been nervous about such losses since Bank of New York's announcement a month ago of a sizeable provision in its credit card operations.

NationsBank's provision for credit losses was $155m, up from $70m, while First Chicago set aside $185m ($145m of it in the credit card business), compared with $90m.

However, higher lending volumes and an increase in overall net interest margins, in part due to a shift away from lower-yielding assets, enabled both banks to register earnings advances for the period.

NationsBank's net income rose 30 per cent to $605m, in part due to acquisitions, while earnings per share climbed 16 per cent to $1.98. At First Chicago, after-tax earnings were 9 per cent higher at $361m, or $1.09 a share. Meanwhile, Norwest reported a 22 per cent increase in net income, to $289m, or 76 cents, while PNC said its earnings had risen 28 per cent to $248m, or 72 cents.

There was also further evidence that US banks have begun to draw in their horns after several years of rapid growth in consumer lending. PNC said that its loans had grown only 5 per cent from a year before (adjusting for acquisitions).

The competition among banks, which has driven down lending margins, and concerns about "national asset quality in consumer lending" accounted for the fall, it said.

The pull-back in lending by US banks generally has led to a sharp slowing in loan growth in recent months. Overall, loans are up around 6 per cent from a year ago, according to Federal Reserve data. That is only around half the rate of growth seen this time last year.

Hughes Electronics ahead 6.3% on strong demand

By Christopher Parkes in Los Angeles

Strong demand for commercial satellites and cellular telephones contributed most to a 6.3 per cent increase to $307m in second-quarter earnings at Hughes Electronics, the General Motors subsidiary.

Earnings per share, before accounting adjustments, rose 7 per cent to 77 cents, although margins fell one percentage point to 11.2 per cent. Mr Michael Armstrong, chairman and chief executive, attributed the margin erosion mainly to the downward pressure of GM's global sourcing initiative on automotive component prices and investment in international expansion.

The vehicle components business, which accounted for 38 per cent of revenues totalling $4bn, increased sales almost 5 per cent.

The telecommunications and space division, which includes fast-growing DirecTV, the leading US satellite television service, recorded a 24 per cent rise in operating profits to $57m. Operating income was restrained by increased marketing expenditure at DirecTV.

Demand for communications satellites was a strong growth driver, and revenues in the division jumped over 27 per cent to $952m.

Turnover in the aerospace and defence operations rose 5.4 per cent, mainly due to new revenue streams from the Magnavox Electronics Systems acquisition.

Applied Materials downbeat

By Louise Kehoe in San Francisco

Applied Materials, the leading US manufacturer of production equipment for the semiconductor industry, warned yesterday that results for its third fiscal quarter ending July 28 would be below previous projections.

Several chipmakers are postponing purchases of equipment as they delay plans to expand existing plants and build new ones, the company said. Delivery of this equipment, already on order, is being postponed until later this year and the first half of 1997, it added.

The delayed shipments are expected to reduce third-quarter sales by about $50m, to about $1.1bn. Net earnings for the quarter are expected to be about 90 cents a share, well below Wall Street estimates of about 98 cents a share.

Applied Materials shares fell $2¾, or 8 per cent, to $25⅞ in early trading yesterday.

The company also warned that new orders booked during the quarter are now expected to be about 22 per cent lower than projected a few weeks ago, at about $900m. The declining order rate signals a trend toward lower revenues and earnings in the coming months.

Applied blamed the decline in orders in part upon a 40 per cent cut in capital spending plans by Japanese chipmakers, prompted by a sharp drop in memory chip prices over the past six months.

Some semiconductor producers in the US and other parts of Asia have also postponed investments in new factories, the company said. However, capital spending trends among European and Korean groups remain unchanged.

The Applied Materials profit warning confirmed the views of several Wall Street analysts who have recently lowered earnings estimates or downgraded the stocks of semiconductor equipment companies.

However, it is still unclear how long the current slowdown in semiconductor market expansion will last. "Japanese companies are pausing to rethink their investment plans," said Ms Nancy Handel, Applied Materials treasurer. The critical question for the outlook on semiconductor equipment sales is how long these companies will delay new investments, she said.

CPC Int'l ahead but warns on corn costs

By Richard Tomkins in New York

CPC International, the US food company that makes Hellmann's mayonnaise, Knorr soups and Mazola corn oil, increased net profits by 8 per cent to $153.9m, or $1.04 a share, in the second quarter, but warned that troubles in its corn refining business would hit its third-quarter results.

It said good results from its consumer food businesses could be substantially offset in the third quarter by the effect of tight supplies in the corn market. These had produced "extremely high" corn costs in the second quarter, reducing the division's operating profits by 44 per cent.

The company said conditions should return to normal in the fourth quarter, assuming a reasonable corn harvest this year. But the news upset the market, shares falling $3⅜ to $67⅜ in early trading.

CPC's worldwide sales rose by 23 per cent to $2.5bn, mainly reflecting the acquisition of Kraft's baking business last October. Excluding acquisitions, sales would have risen 5.5 per cent, with volumes ahead 5.1 per cent, the company said.

Mr C.R. Shoemate, chairman and chief executive, said a powerful performance from CPC Europe, which increased operating income by 19 per cent, had helped the company overcome the profits downturn in its corn refining business.

The European figures were boosted by the acquisition of the Pot Noodle hot snacks business in the UK and Lesieur dressings in France. Other factors included the launch of Hellmann's mayonnaise in Germany and strong growth in eastern Europe.

Best Foods, CPC's North American consumer food business, increased operating profits by 4.6 per cent.

Operating profits from consumer foods rose by 15 per cent in Latin America and by 8.2 per cent in Asia.

NEWS DIGEST

MFS wins Dutch telecoms licence

MFS, a US telecommunications carrier with widespread operations in Europe, claims to be the first overseas operator to benefit from the liberalisation of the Netherlands' telecoms market. It said yesterday it had been awarded a full licence, giving it rights to build infrastructure and offer national and international services in the country, including public switched voice and data.

Subject to negotiations with landowners, MFS now has the right to lay fibre-optic cabling and bring undersea cables ashore for international communications. It is negotiating with Amsterdam to lay cables round the city and out towards the airport. This has been made possible by the passage of an interim telecoms bill through the Dutch parliament. The European Commission has ruled there must be free competition in both infrastructure and services from January 1, 1998. Until then, most European countries will only allow overseas competitors to install private voice and data networks. *Alan Cane*

Bowater optimistic despite fall

Bowater, the largest US newsprint producer, reported a fall in second-quarter income as lower prices hit profits. However, Mr Arnold Nemirow, chairman and chief executive, suggested a more optimistic outlook saying "shipments of newsprint, coated groundwood papers and market pulp increased over first-quarter levels." He said prices for pulp "began to improve late in the quarter".

Second quarter net income was $44.3m, down from $59.8m in the same period of 1995, and from $75.8m in the first quarter of the current year. Earnings per share were $1, before a 4 cents a share charge relating to the repurchase of some of the group's debt, compared with $1.31 in the second quarter of 1995, and $1.69 in the first three months of this year. In the quarter Bowater bought back 450,000 of its shares, taking the total acquired under its buy-back plan to 2.1m, just over half the amount it is authorised to buy. *Maggie Urry, New York*

Boise Cascade tumbles into red

Falling sales and slumping paper prices hit Boise Cascade, the US paper and forest products group, which suffered a $17m net loss in the three months to June 30, compared with a net profit of $93.3m in the same quarter of last year. The loss per share was 55 cents, compared with earnings of $1.43. However, the group said its paper business returned to profit late in the quarter as demand and prices both began to recover.

The group sold 656,000 tons of paper in the quarter, a 14 per cent fall from the 766,000 tons sold in the comparable period. Average prices fell 23 per cent over the same period, and by 15 per cent from the first quarter of 1996 to the second quarter. Mr George Harad, chairman and chief executive, said the paper business should "earn a modest profit in the third quarter if prices stabilise and significant production downtime is averted". *Maggie Urry*

Arequipa non-committal on bid

Arequipa Resources, the Vancouver-based exploration company, has given a non-committal response to Barrick Gold's C$915m (US$668m) takeover bid. Ms Catherine McLeod, Arequipa chief executive, said yesterday: "We view this as a serious offer from a serious company." Arequipa has hired Nesbitt Burns, the Canadian securities firm, to help assess the bid. Analysts expect that Arequipa, whose main asset is the promising Pierina gold and silver deposit in Peru, will ultimately accept Barrick's cash bid, unless a more attractive offer surfaces. Arequipa shares rose 20 cents to C$28.25 in early trading in Toronto yesterday, compared with Barrick's C$27 a share offer. *Bernard Simon, Toronto*

Sharp fall at Archer Daniels

Archer Daniels Midland, the international grain and food processing group, said net earnings tumbled 36 per cent in the fourth quarter ended June 30, as price increases in its raw commodity ingredients chipped away at profits. It said fourth-quarter net earnings fell to $143.5m, or 28 cents a share, from $225.5m, or 42 cents, in the same quarter last year. The secretive company does not release sales figures with its earnings reports.

For the full year, net earnings were $696m, or $1.33 a share, off 12.5 per cent from last year's $796m, or $1.47. *Laurie Morse, Chicago*

Rio Algom chief dies

Mr Lawrie Reinertson, chief executive of Rio Algom, the Toronto-based mining group, died suddenly of a heart attack on Sunday.

Mr Reinertson, who was 51, moved to Rio Algom in April. He was previously managing director of Placer Pacific, the Australasian gold producer. Mr Gordon Gray, Rio's chairman, will take over the responsibilities of CEO until a successor is named.

Mr Reinertson announced last Friday that Rio Algom in partnership with Inmet Mining had won a bidding contest for the promising Antamina copper and zinc property in Peru. Rio is also a partner in the Alumbrera copper and zinc deposit, Argentina's flagship mining project. *Bernard Simon*

Northern Telecom remains wedded to technology

Mr Jean Monty, president and chief executive of Northern Telecom, rejects the description "telecommunications equipment manufacturer" for his company: "We are a technology supplier," he says reprovingly.

Technology is the foundation of Nortel's present position. A daring decision in the 1970s to introduce computer-based switching equipment propelled the Canadian company into the ranks of the world's top telecoms equipment suppliers and left it a leader in digital switching, able to hold its own against larger groups such as AT&T (now Lucent Technologies) of the US and Alcatel of France.

Technology features strongly in Mr Monty's ambitions for the group. Last year it spent US$1.58bn on research and development, some 14.8 per cent of revenues and well above the industry average of about 10 per cent. In 1994 the proportion was 13 per cent. In 1993, when Mr Monty took over the top job at Nortel from Dr Paul Stern, one of his first and most critical decisions was to drive R & D spending up from 11 per cent to 12.8 per cent.

Jean Monty: 'We will acquire technologies where we have a void'

It is a commitment he is determined to sustain. "No technology company can survive without growth. If you do not grow in a technology business, you are bound to fail in the long term because that would mean you were not staying abreast of the industry."

The financial results seem to confirm his argument. Last year Nortel made pre-tax profits of $706,000 on revenues of $10.6bn. When R & D spending was cut to 11 per cent in 1992 under Dr Stern, there was a loss before tax of more than $1bn the following year, a traumatic event for the group.

Mr Monty expects the group's revenues to double in five years. He has a sanguine response for those who query his prediction, arguing that the falling cost of technology, the fierce increase in competition and pressure from customers to cut prices point to a bleak future for manufacturers.

"Recently we looked at the potential for new carriers around the world. The estimate we made was a couple of hundred new digital networks for the Americas, another couple of hundred for western and eastern Europe and another couple of hundred in the Asia-Pacific region.

"This could be an underestimate. The number could be three or four hundred in each of these three areas. The problem is an overabundance of opportunity and having to make priority choices."

Nortel is setting up the international infrastructure to secure what Mr Monty describes as its "fair share" of this new business.

There is a joint venture with Daimler-Benz Aerospace in Germany, established last year, another with Matra in France and a third with Olivetti in Italy.

What is Nortel's fair share? Mr Monty calculates it should be able to win 10 per cent of the markets in which it competes – markets worth at present a total of $180bn globally.

He points out, however, that the overall percentage is less important than performing well in each of the group's chosen market segments – switching networks, enterprise networks, wireless networks and broadband networks. Mr Monty wants to see Nortel among the three leaders in each of these segments.

The company has decided to stay out of low-margin sectors such as cabling, and is still debating whether it should take a role in digital handsets.

Core expertise in a variety of technologies is important to Nortel, but not at all costs. "In many cases we would prefer to have a technology partner rather than make an acquisition," Mr Monty says. "We will acquire technologies where we have a void, or where we feel our own efforts are not moving fast enough to bring products to market on time."

The company remains a 10 per cent stakeholder in ICL, the UK-based computer group owned by Fujitsu of Japan, but has no long-term ambitions for the company. When ICL is floated on the UK stock market, Nortel will bale out.

The London market is important to Nortel, however. Mr Monty was in London this week to meet financial analysts for the first time for several years. He now plans an annual meeting: "Some 25 per cent of our business is in Europe and we believe that over time this company will prove an attractive investment vehicle for money managers in London."

Alan Cane

Mediaset shares shrug off uncertainty

By Andrew Hill in Milan

Shares in Mediaset, the Italian television and advertising company, yesterday shrugged off regulatory uncertainty, a depressed market and the indictment of the group's chief executive to rise to a 4.5 per cent premium over the offer price on their first day of official trading.

The closing price of L7,316, against an offer price of L7,000, was lower than some prices struck in unofficial trading last week, when the shares occasionally topped L8,600. But that was before Friday's decision by a Milan judge to send Mr Silvio Berlusconi, the former Italian premier, and Mr Aldo Livolsi, the group's chief executive, for trial in connection with illegal financing of the now-defunct Socialist party by Fininvest, the private Berlusconi holding company which is Mediaset's controlling shareholder.

Mr Berlusconi and Mr Livolsi deny the charges, which do not relate to Mediaset's activities.

Analysts said that the performance of the shares, 12.7m of which changed hands yesterday in heavy trading, was creditable given the uncertain environment.

Mediaset, which owns Italy's three largest commercial television channels and its largest television advertising company, is also awaiting the outcome of a drawn-out legislative debate of rules on Italian media ownership. The centre-left government has said it will approve draft legislation on the regulation of the telecoms and media sector tomorrow. The new law could force Mediaset to transform one of its three terrestrial channels into a satellite or cable channel by the end of summer 1997.

Mr Fedele Confalonieri, Mediaset chairman, said it was "a good debut" for the shares, which went to 245,000 investors, including small shareholders in Italy and international institutions. The shares opened at L7,550, but lost ground in a depressed market.

The flotation, co-ordinated by Imi of Italy and Morgan Stanley of the US, makes Mediaset one of Italy's 10 largest quoted companies, with a market capitalisation of more than L8,600bn ($5.6bn).

Fininvest's stake will come down to 50.1 per cent if the over-allotment option is exercised, and slip below 50 per cent if minority shareholders exercise options to buy more Mediaset shares.

One aim of the flotation was to reduce the conflict of interest between the business and political ambitions of Mr Berlusconi, who is still leader of Italy's right-wing opposition.

World Stock Markets, Page 40

Bertelsmann denies it seeks listing to raise cash for TV plan

By Judy Dempsey in Berlin

Bertelsmann, Germany's largest media and entertainments group, yesterday denied it was seeking a listing on the stock exchange in an attempt to raise capital to pursue its television interests.

But it confirmed it was seeking partners in the US to compete with the Kirch group, which last week formed an alliance with Mr Rupert Murdoch to launch digital television later this month in Germany.

Mr Michael Dornemann, a board member of Bertelsmann who is also responsible for the electronic media division, said the group was "capable of financing the necessary investments on its own".

His statement was designed to dampen speculation that Bertelsmann was planning to sell up to 49.9 per cent of RTL, Germany's successful commercial television network, in which it holds the majority stake.

It also follows weeks of reverses for Bertelsmann, which believed it could beat the Munich-based Kirch group in the race for the launch of digital television.

But two months ago, an alliance forged between Mr Murdoch, owner of BSkyB, and Bertelsmann, which would have boosted the group's chances in digital television, fell apart after Mr Murdoch withdrew.

Mr Murdoch last week opted to form a potentially formidable alliance with Mr Leo Kirch, chairman of the Kirch group.

The alliance, acting under the umbrella of DF1, the digital television division of Kirch, is scheduled to launch the network later this month. However, Bertelsmann said yesterday that it would continue to pursue its plans for digital television.

"We are not out of the race for digital television. We will stay in it, although it is true that Kirch is far ahead," Bertelsmann said.

Iveco considers plants in Brazil and Argentina

By Haig Simonian, Motor Industry Correspondent

Iveco, the commercial vehicles arm of the Fiat industrial group, is in advanced talks on building new truck plants in Brazil and Argentina.

A decision on the projects, which together could cost more than $200m, is expected before 1997. Fiat is also planning to spend $300m to raise output at its new car factory in Argentina, which is near completion.

The schemes are all part of Fiat's strategy to broaden international coverage to exploit the expected surge in car and truck demand in South America. The group last week said it would spend an unspecified amount on a new car engine plant in Brazil.

Two Iveco management teams are working on the commercial and manufacturing implications of production in South America. It is believed they will recommend a substantial project involving new factories in Brazil, the continent's biggest truck market, and Argentina.

Industry sources say Iveco will favour starting in Brazil, which accounts for about half the continent's sales of about 100,000 trucks a year.

However, Iveco is also expected to set up production in the much smaller Argentine market, which accounts for about 13,000 units annually.

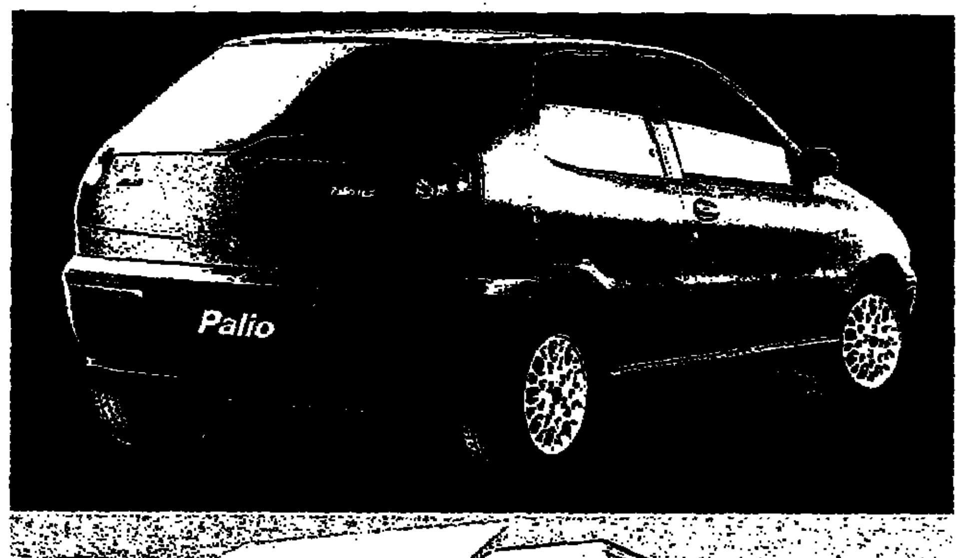
The Brazilian plant will specialise in medium-to-heavy-weight vehicles, based on Iveco's current EuroTech range. The Argentine unit will build light-to-medium weight vehicles, based on the small Daily light truck range and the UK-built EuroCargo medium-weight model. Iveco, which used to build trucks in Brazil, has lost ground to rivals such as Mercedes-Benz, Volvo and Scania, which manufacture locally.

The investment in trucks will copy the example set in cars, where Fiat's Brazilian and Argentine factories will build different versions of the new Palio "world car".

Output of the four-door Palio, which is to be built at a new plant at Cordoba in Argentina, will be increased from 1,200 to 1,800 a day once production starts next year. A commercial launch is expected early next year.

In Brazil, where Fiat is spending $1bn on the Palio, the company will build a new plant for new generation 16-valve engines for the new model. Output of three-door Palios at Betim started earlier this year and are planned to reach 2,000 units a day.

Iveco is believed to have examined an Argentine site in Cordoba, not far from Fiat's new car plant. The Brazilian engine factory may also be near Fiat facilities in the state of Minas Gerais. Apart from South America, the Palio range will be built in Poland, Turkey and India as the cornerstone in Fiat's strategy to expand output beyond established European markets.



Making trucks including the EuroCargo (above) in South America would follow Fiat's Palio example

INTERNATIONAL NEWS DIGEST

BHF and CCF take control at Asia bank

BHF-Bank of Germany and CCF, the French bank, are taking a joint majority stake in a planned new Asian merchant bank called Equinox Group Holding. BHF and CCF, which co-operate on European mergers and acquisition business, will each have a 30 per cent stake. The new bank, which will have capital of $100m, is being set up by a group of US and Asian bankers who will own a combined 5 per cent.

Other private and industrial investors will come from Hong Kong, Indonesia, Thailand, South Korea, the Philippines and Japan. Equinox will concentrate on corporate finance and equity holdings with the aim of helping multinational companies, especially German and French, to expand in Asia. It will be based in the Cayman Islands, with branches in Hong Kong and Singapore and representative offices in Frankfurt, New York and Paris. *Andrew Fisher, Frankfurt*

Warburg in S Africa link-up

SBC Warburg is to team up with Capital Alliance, the South African fund management, project and corporate finance house set up by Mr Mzilikazi Khumalo. Since the acquisition last year of brokers J.D. Anderson & Co, Warburg has been one of the largest foreign investment banks operating in South Africa, with more than 80 employees.

As well as advising South African corporations on cross-border acquisitions, Warburg has led South African debt and equity issues. It has already worked with Capital Alliance on corporate finance projects, and said yesterday the partnership would give it access to a well-established black-controlled financial services company in South Africa. Capital Alliance, founded in 1991, recently announced a restructuring to extend its activities into life assurance through Saflife. *George Graham, Banking Correspondent*

S&P cuts News Corp outlook

Standard & Poor's, the US-based ratings agency, is downgrading its ratings outlook on Mr Rupert Murdoch's News Corporation from "positive" to "stable". However, existing ratings – including the triple-B rating on News America Holdings' US$6.6bn of senior debt – were reaffirmed.

The agency said the revision partly reflected a "slowing of the trend of credit improvement" that it had previously anticipated for 1996, and partly the risks associated with News' investments in direct broadcast satellite pay-TV and "other business initiatives". Uncertainty over the capital required to support new satellite ventures and the time-frame for break-even cashflow was likely to "limit upgrade potential".

S&P had previously expected that acquisitions would be current cash generators, and had not anticipated a A$1.25bn (US$1bn) increase in debt to prefund acquisitions. However it also noted the financial "flexibility" enjoyed by News, owing partly to the US$2bn equity investment commitment by MCI, the US telecoms group. *Nikki Tait, Sydney*

SKF to supply Japan carmakers

SKF, the world's leading manufacturer of roller bearings, is to start deliveries to the Japan's domestic car industry after reaching agreement with Suzuki to supply front-wheel bearings for its home-produced models. SKF has supplied Japanese automotive plants outside Japan and manufacturing industry in Japan but had not broken into the country's car market. Japanese manufacturers have traditionally relied almost exclusively on domestic bearing makers. SKF supplies half Japan's bearings imports but its market share is only 1 per cent, while it enjoys about a fifth of the non-Japanese Asian market. *Greg McIvor, Stockholm*

EDS warns on computer date change

By Alan Cane

Most of Europe's larger companies have yet to modify their computers to avoid a disastrous systems collapse as the western world moves into the 21st century. More than one-third of board members are not even aware of the danger posed by the date change, despite widespread publicity.

These are the main conclusions of a survey carried out by Electronic Data Systems, the big US computing services company which manages data processing operations on an outsourcing basis for many of the world's largest organisations.

EDS quotes industry estimates of the total cost of making the essential modifications in Europe as $600bn.

The survey was carried out among 352 companies in May and June this year as full ignorance of the "millennium date change" became apparent. Mr Ian Taylor, the UK science and technology minister, for example, who has been mounting a campaign to raise awareness of the issue, found few participants at a meeting of European Union telecoms ministers in Brussels last month who understood the danger, including Mr Martin Bangemann, the research commissioner.

The problem concerns the way computer systems store dates.

To save expensive memory, most computer systems, especially those which have been in place for some years, store and process only the last two digits of any year: 96, for example, to represent 1996. These computers will store the year 2000 as 00, but will not know which century it refers to.

EDS points out that all kinds of data-related calculations will be invalidated, with the consequence that pensions may not be paid, driving licences will be invalid and credit card payments will be overdue by 99 years.

Only 45 per cent of companies have plans for the date change, EDS discovered.

German companies were best prepared with 85 per cent having plans in place, while Italian groups were least ready, with only 38 per cent prepared. The UK and Spain were among the best prepared, both with more than 70 per cent of companies having plans in place.

Mr Paul Clark, managing director for EDS technical services in Europe, said: "We estimate that many of those with plans in place will have severely underestimated the level of resource and funds required to fix the problem in the timescale.

"Governments across Europe as well as commercial organisations need to sit up and take notice as the infrastructures of the societies they govern could be severely disrupted".

Modifying the systems is not a simple operation because of the way individual programs interact with one another.

EDS said it had signed a 54-month project management agreement with the US investment bank Morgan Stanley to prepare its systems for the millennium.

Arjo cost cuts lift Getinge at halfway

By Greg McIvor in Stockholm

Getinge, the Swedish medical technology group, lifted first-half pre-tax profits from SKr227m to SKr238m ($35.5m) following stronger than expected returns from its Arjo subsidiary, which was acquired last year after a fiercely contested takeover battle.

The company said sales at Arjo, the world's leading supplier of patient handling and hygiene systems and Getinge's largest division, fell 13 per cent from SKr790m to SKr687m. However, operating profits rose from SKr92m to SKr127m, helped by cost-cutting.

Group turnover in the period advanced from SKr1.36bn to SKr1.7bn. Mr Carl Bennet, Getinge managing director, confirmed the company's earlier forecast that full-year profits would be between SKr480m and SKr500m.

The shares eased SKr1 to SKr119.

Getinge has made a series of acquisitions in the past 18 months to become one of Scandinavia's largest medical technology groups.

However, first-half growth was held back by weak performance in the distribution division, where operating profits slid from SKr39m to SKr19m. Mr Bennet blamed the decline on a decrease in the total market, primarily in the health-food product line – which had shrunk 15 to 20 per cent this year.

Invoiced sales in distribution dropped 22 per cent, from SKr584m to SKr455m. Measures had been taken to improve efficiency and reduce costs, but market conditions would remain difficult, the company said.

It added that development in its sterilisation (pharmaceutical industry) and disinfection business areas had been positive. However, operating profits in sterilisation (healthcare) dropped from SKr35m to SKr27m as a result of lower activity and project delays in eastern Europe and Asia-Pacific.

Getinge was confident its $37m bid for MDT Corporation of the US would succeed after it last week raised its tender offer from $4.40 a share to $5.50.

The deal would increase its share of the US sterilisation and disinfection market from 2 per cent to 25 per cent.

WMC to expand Olympic Dam operation

By Nikki Tait in Sydney

WMC, the Australian resources group which has shortened its name from Western Mining, is to go ahead with a A$1.26bn (US$996m) expansion of its large Olympic Dam mine operation in South Australia.

The move could more than double the mine's copper output, from around 85,000 tonnes a year at present to about 200,000 tonnes, with the accompanying uranium production increasing from 1,500 tonnes currently to around 3,700 tonnes.

This would add more than 1 per cent to present global copper production and 7 per cent to uranium output.

Gold production from the mine site would also rise, from about 30,000 ounces at present to 75,000 ounces, with silver output going up from 400,000 ounces to 950,000 ounces.

Total ore throughput would almost triple from 3m ounces to 8.5m ounces a year by 2001 under the proposed plan.

Approval for the expansion at Olympic Dam, which had been anticipated for several months, was announced in Adelaide yesterday by Mr Hugh Morgan, WMC managing director. He said that the expenditure – the largest single capital investment made by the mining group in its 63-year history – would occur over a five-year period, and was expected to create more than 1,000 construction jobs, plus 200 extra permanent jobs.

Funding would come from a mixture of internal cash flow and external borrowings. Gearing is expected to increase as a result, but Standard & Poor's, the US-based rating agency, affirmed the mining company's long-term and short-term credit ratings, at A and A1 respectively.

S&P said that while gearing could move temporarily into the 35-40 per cent range – above the management target of 30 per cent – this would be underpinned by WMC's fairly diverse earnings base.

The Olympic Dam ore-body was discovered more than two decades ago, and came into production in mid-1988. It is said to be the world's biggest known uranium deposit and the sixth largest copper deposit.

WMC said that the investment decision had not been affected by the recent turmoil in the copper markets, resulting from the Sumitomo affair – with the decision being based on its perceived long-term "fundamental" outlook for the metal. The economics of the mine expansion have also been aided significantly by the sharp improvement in uranium prices, and the fact that uranium production steps up more or less in line with copper per output at Olympic Dam.

The company's aim is to take production to 150,000 tonnes of copper a year, from an ore throughput of about 6m tonnes, by 1999.

The company said that it would be seeking approvals to go as high as 350,000 tonnes of copper a year, but solely to "provide flexibility for future expansion".

Napocor lifts profits 39% ahead of sell-off

By Edward Luce in Manila

National Power Corporation (Napocor), the Philippines' largest electricity generation company, reported a strong rise in net earnings in the first six months of 1996.

The group said it benefited from a drive to boost profits before its planned privatisation next year.

Lower interest payments on debt, and changes in the regulations allowing Napocor to pass on adjustments in purchase prices to electricity distributors, pushed net profits up 39 per cent, from 2.44bn pesos to 3.4bn pesos ($129.8m). Net revenues rose 10.8 per cent, to 29.1bn pesos. Overall energy sales rose 6.3 per cent.

Other changes, including the right to pass on fuel price adjustments and losses from currency fluctuations to the consumer, also lifted Napocor's margins. The company is attempting to "unbundle" its tariff structure to make it more transparent and isolate previously hidden subsidies.

"We are trying – I think successfully – to maximise Napocor's profitability in advance of privatisation next year," said Mr Rauf Tan, head controller. "We have been helped by changes in price adjustment rules and by the appreciation of the peso against the yen."

Interest payments on Napocor's debt, more than 60 per cent of which is denominated in yen, were further reduced by the early repayment on some of the principal. The company, which plans to issue $250m in eurobonds later this year – to be underwritten by Salomon Brothers – is the largest single Philippine issuer in the international capital markets.

Napocor, which is expected to be hived off into four or five power generation companies when it is privatised, supplies about 65 per cent of the country's power needs.

Under the privatisation blueprint, which is being drawn up by Merrill Lynch and N. M. Rothschild, the privatised companies will be required to list on the Philippine stock exchange within a specified period. Ten per cent of the equity will be handed back to employees.

Proceeds from the privatisation, which will net between $4bn and $5bn, will go towards the completion of a national transmission grid linking the country's main islands via submarine cable. A national transmission authority will be retained in state ownership.

Improved prices offset output fall at Gengold mines

By Mark Ashurst in Johannesburg

Gengold, the South African gold mining arm of Gencor, posted a 28.3 per cent rise in attributable income to R56.7m ($12.7m) for the quarter to June, as higher gold prices offset a 5 per cent fall in total production.

Operating income for Gengold mines Beatrix, Kinross, Leslie, St Helena and Winkelhaak rose 16 per cent to R112m for the period, compared with a 7 per cent increase in the previous quarter. Working costs climbed to R394m, the third consecutive quarterly rise, although management predicted lower costs this quarter.

Senior executives are to begin touring Europe and the US today to win investors' support for a plan to merge Kinross, Leslie, Bracken and Winkelhaak mines by October. "This will facilitate a proper autonomous gold mine company management in the fullness of time," Mr Tom Dale, managing director, said.

The mines currently pay management fees to Gengold, but would benefit from "substantial tax breaks by converting management fees into cash and then into equity" in the merged Evander company. Gengold would be restructured into two separate investment vehicles: Evander, and a second in the Free State.

The merger could be followed by a R250m to R300m rights issue to finance capital expenditure at Winkelhaak mine, which incurred a R6.8m loss after paying for 1,250 redundancies. Output fell 38 per cent, which largely accounted for a 2.5 per cent fall in Gengold's total production, to 1.58m tons.

The company said investigations at Kinross had uncovered "an organised gold theft syndicate" allegedly involving 24 of the 170 employees at its smelter. These had been suspended pending criminal charges.

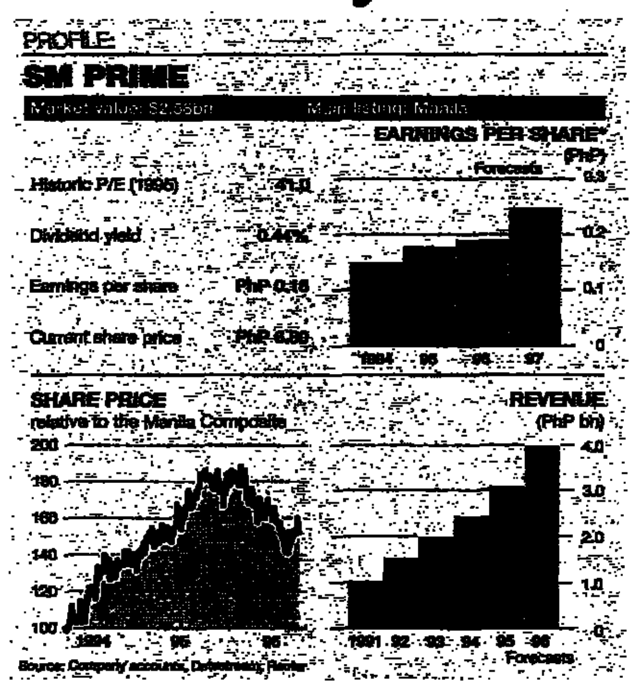
Kinross's earnings per share rose 60 per cent to 122 cents a share from 49 cents, and the mine resumed dividend payments, which were suspended last year, for a final payout of 80 cents a share.

Production at flagship mine Beatrix was flat, while working costs rose 4 per cent to R109m. Earnings per share dipped from 39 to 34 cents, and the final dividend was 70 cents, lifting the total to 133 cents from 123 cents.

Manila mall operator loses novelty value

New foreign ownership laws could hit the shares and fortunes of SM Prime

Shopping around: a new mall opens in Manila



As the Philippines' largest shopping mall operator, SM Prime offers foreign portfolio investors the nearest thing they can get to a retail stock. Debarred from acquiring direct shares in the country's surging retail sector, foreigners have pushed SM Prime's share price up to near record levels. At a p/e of 37, the group is trading at almost double the Philippine stock market's level.

All that, however, could be about to change. As Congress debates the final stages of legislation to open the country's retail industry to 100 per cent foreign ownership, SM Prime is about to lose its enviable status.

At the same time, Uniwide, a wholesale discount seller with retail outlets and shopping malls around the country, plans a market listing between now and September in what will be the largest Philippine IPO this year.

Uniwide's IPO – totalling between 2.5bn and 3bn pesos ($95.5m-$114.6m) – and the impending retail liberalisation legislation are seen as a threat to SM Prime's ascendancy. Shares in the mall operator, in other words, could also have a downside.

"There are some negative implications for SM Prime from the changes in the law," says Ms Gina Mananzo, analyst at Asia Equity Securities in Manila. "But it should also be remembered there are big opportunities for SM Prime as well."

Of these, the most obvious is the opportunity for new customers. In the build-up to liberalisation, dozens of foreign boutique and department chains are scouting around Manila's fertile shopping ground for space to lease. With more than 1m square metres of indoor shopping mall – mostly in Manila – SM Prime is the biggest lessor in the Philippines.

Foreign companies, notably the big Japanese department stores, have already expressed an interest in a market which is growing by between 18 and 20 per cent a year. Few, though, are expected to go it alone.

SM Prime, which boosted net profits last year by 40 per cent to 1.51bn pesos, is an obvious joint venture partner. Earlier this year it took a 38 per cent stake in a wholesale chain led by Makro, the Dutch chain. Retail ventures are expected to follow with the introduction of the new law.

"We don't see the new law as a threat. We see it as an opportunity," says Mr Jose Sio, chief finance officer at SM Prime. "The market is growing so quickly that there is plenty of room for foreign operators. We think there is also a great deal to learn from them."

As the pioneer of the US-style indoor shopping mall in the Philippines, SM Prime has little to learn about economies of scale. Indeed, with plans to build a 500,000 sq m mall in Manila Bay, to be called the Mall of Asia, SM Prime will own the largest mall in the world by its completion in 2000. Mega Mall, its 330,000 sq m centre in Ortigas, the capital's second business district, is already the largest in Asia.

At any one time more than 1m customers are browsing through SM Prime's Philippine malls.

Economies of scale have also brought SM Prime financial advantages, including a centralised purchasing system enabling it to build malls at a big discount, and strong operating cash flows which have kept its debt-equity ratio to below 10 per cent. But there are also disadvantages.

As a mass operator which appeals to the country's low to middle-income groups, SM Prime is badly positioned to cash in on the expanding high end of the shopping mall sector. While the company's vast malls serve as a model of efficiency to local competitors, the buildings are not exactly a paragon of quality.

"The first thing you notice about Mega Mall is its size," says Ms Meg Francisco, chief researcher at Deutsche Morgan Grenfell. "The second is its low quality. It packs people in but it is not an experience for the discerning. The high-spending segment of the market, which is also the fastest growing, prefers something more upmarket."

Having almost saturated the Manila middle-income market, SM Prime is concentrating on provincial sites, with plans to open four regional malls over the next two years.

Critics of SM Prime say this is a strategy of diminishing returns.

"Eventually, the hottest competition will be at the luxury end of the market where Japanese department stores can excel," Ms Francisco says. "SM Prime is not best placed to compete at the value-added game."

For 72-year-old Mr Henry Sy, the Chinese-Filipino founder and chairman of the group, the chances of a share downside are probably of little concern. With a free-float of only 17 per cent and no debt to speak of, the company can generate much of its capital from the interest on its cash holdings. The company's cash-equity ratio is 26 per cent. SM Prime can easily afford to diversify.

Edward Luce

Recovery at most Korean banks

By John Burton in Seoul

A surge in interest income and a fall in loan loss reserves helped South Korea's 25 commercial banks recover to report a total net profit of Won437.5bn ($537.5m) for the first half of 1996, against a loss of Won72.6bn a year ago.

The 15 national banks reported combined earnings of Won340.9bn against a loss of Won95bn in 1995, while the 10 provincial banks surged from Won22.4bn to Won96.6bn. Total operating income grew 12 per cent to Won2,330bn, while reserves for bad loans, securities losses and retirement liabilities fell 17 per cent to Won1,750bn.

Kookmin Bank, a former state-run retail bank privatised in 1994, led with profits of Won100bn, up 119.5 per cent. Commercial Bank of Korea, which has aggressively reduced its bad loan portfolio, rose 127 per cent to Won79.3bn. Shinhin Bank reported a 21 per cent rise to Won75.5bn.

Korea Exchange Bank, also privatised in 1994, showed the highest earnings growth among national banks, with profits ahead 1,000 per cent to Won73.7bn. Cho Hung Bank rose 423 per cent to Won63.8bn, while Hanil Bank fell 43 per cent to Won17.6bn. Hana soared 196 per cent to Won30.5bn, while Boram surged 508 per cent to Won7.9bn.

Seoul Bank, which has the largest percentage of bad loans of total lending among the main banks, incurred a loss of Won69.4bn against Won33.8bn a year ago. Korea First, which was hurt by the bankruptcy of several main corporate clients last year, narrowed its loss to Won34.6bn from Won138.2bn a year ago. Losses also narrowed at Peace Bank of Korea, from Won27.5bn to Won14.7bn, and at Donghwa Bank from Won37.6bn to Won6.9bn.

KorAm recovered to Won14bn from a Won4bn loss.

COMPANIES AND FINANCE: UK

Pentland rejects $93m offer for associate

By David Blackwell

Pentland, the sportswear and consumer products group, yesterday threatened to spoil an agreed takeover of Authentic Fitness Corporation, a US associate company, by rejecting a $93m offer for its 23 per cent holding.

Mr Stephen Rubin, Pentland's chairman, resigned yesterday as a director of AFC, maker of Speedo performance swimwear in the US, after voting against the offer from Warnaco, the US sports and underwear company.

Warnaco's offer comes as more than 40 national swimming teams line up in Speedo costumes for the Olympic Games, which open in Atlanta, Georgia this week.

Speedo, based in Nottingham, is owned by Pentland. This year it launched a revolutionary new fabric for its performance swimwear, which has more than half the world market. Known as Aquablade, it has less drag than human skin, and could lead to top swimmers wearing all-over suits for the first time.

Warnaco, licensed to manufacture under brand names including Calvin Klein and Fruit of the Loom, sold off AFC in 1990. It is offering 0.62 shares per AFC share, pricing the bid at $408m at yesterday's midday price on the New York stock exchange of $22.13.

Mrs Linda Wachner, chairman and chief executive of both Warnaco and AFC, has a stake of about 13 per cent in each company. She said the offer would not be raised and there would be no cash alternative.

Warnaco has raised the offer once, from 0.725 shares per AFC share. However, its share price has fallen from more than $31 at the beginning of June.

Mr Frank Farrant, Pentland finance director, yesterday described the offer as "fairly opportunistic" and undervaluing AFC, which was "a super company, doing well for us".

AFC said it was disappointed by Mr Rubin's "negative vote."

Biotechnology sector suffers further blows

By Simon Kuper

The British biotechnology sector, a favourite among investors for almost two years, suffered three blows yesterday to add to other recent setbacks.

The share price of British Biotech, the market leader, fell below the £20.50 a share price of a £143m rights issue due to close tomorrow. At last night's close of £20.40, down 18p, they are 38 per cent below their peak of £32.85 in May.

Separately, Therapeutic Antibodies, the US-based biotechnology company, said it would raise just £22m when it floats on the London Stock Exchange next Tuesday, £8m less than it had intended.

In another development, several fund managers said Axis Genetics' planned £12m private placing was overpriced. Hoare Govett, broker to the company, denied the placing was in trouble.

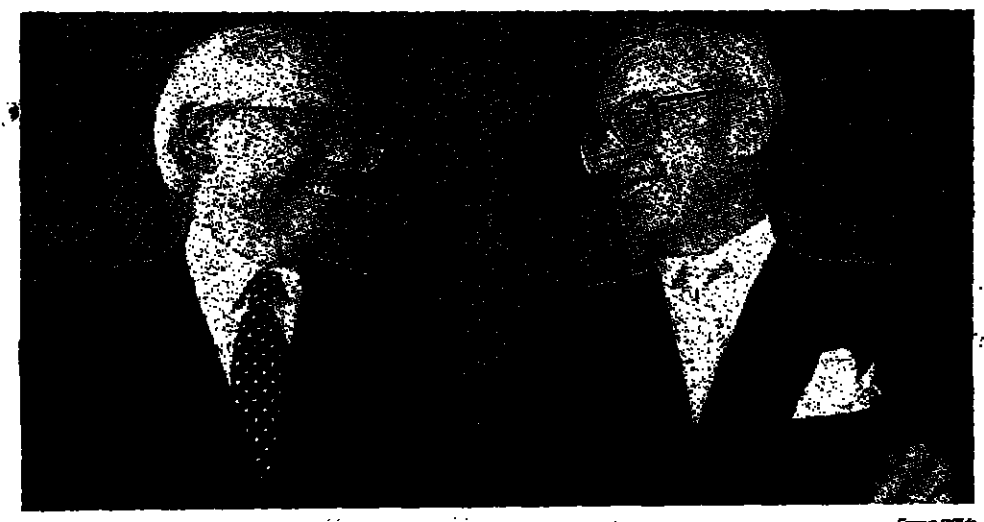
Biotechnology stocks have been falling for almost a month, prompted in part by a flood of share issues.

The companies make losses and promise profits when their products reach the market.

Analysts and fund managers said institutions which had sub-underwritten British Biotech's entire £143m rights issue from Kleinwort Benson would probably be left holding millions of pounds worth of the stock. The issue is the largest in the sector.

However, the sub-underwriters include many of the largest shareholders in British Biotech, among them Morgan Grenfell, Mercury Asset Management and Legal & General Assurance. The closing time for take-up of the rights is 3pm on Wednesday. Yesterday, British Biotech nil-paids – the rights to take up shares in the issue – fell 16p to just 2p.

Upbeat Shandwick ahead



Fergus Wilde

Dermot McNulty, chief executive, (left) and Peter Gummer, chairman: unveiled Mastercard deal

By Jane Martinson

Shandwick International, the public relations group, yesterday announced a global deal with Mastercard International, the credit card business, as it revealed double digit growth in the US, Europe and Asia in the six months to April 30.

Mr Roger Selman, finance director, said he expected the number of multinational accounts to grow over the next few years. The group made a similar deal with Digital Equipment six months ago.

In the first half, Shandwick lifted interim pre-tax profits 11 per cent to £3.57m ($5.56m).

Operating income from fees and commissions rose almost 13 per cent to £58.8m (£52.6m). It increased 10 per cent on a constant currency basis, because of a stronger US dollar. Turnover, which includes some costs of business, rose 8 per cent to £89.2m (£82.3m).

Operating profits rose 9 per cent to £6m (£5.49m). New business in the US particularly eroded overall margins which fell just over 1 percentage point to 16.7 per cent.

However, a focus on the group's US operations in Washington and New York over the past year had resulted in growth of up to 30 per cent, said Mr Selman. The increase in staff employed, including a senior politician in Washington, had reduced regional margins by 2 percentage points to 17 per cent.

In the UK operating income grew 6 per cent to £13.6m (£12.8m), while an operating margin of almost 21 per cent was maintained.

Ellis climbs to £25.6m

By Geoff Dyer

Ellis & Everard, the chemicals distributor, increased annual pre-tax profits by 92 per cent despite volatile movements in raw material prices.

Pre-tax profits before exceptional items advanced to £25.6m ($39.9m) in the year to April 30. The previous year's figures also included a £7.7m charge from the sale of its swimming pool equipment and food hygiene businesses.

Operating profits from continuing businesses rose 16 per cent to £26.3m on turnover 11 per cent higher at £571m.

Mr Peter Wood, chief executive, said the group had had to deal with commodity polymer prices which had doubled at one stage during the year and then halved at a later stage.

In April the group paid £4.35m for Fiske, a food ingredients distributor which will double its sales to the food industry. In May it bought Giltrain Plastics, which distributes the PET polymer, for £4.15m.

Mr Wood said the group would continue to look for buys in markets it had targeted, such as food and polymers, but it was getting harder to find suitable ones.

The group's European operations increased sales by 20 per cent and profits by 20 per cent, while in the US profits advanced 18 per cent and sales 12 per cent.

US team acquires Mercury offshoot

By Alan Cane

Mercury Communications, the UK's second largest telecommunications operator, has sold its paging business, Mercury Paging, to a US management team for £60m ($93.6m). Mercury's share of the proceeds is £30.6m.

The move is part of Mercury's strategy of focusing on its core strengths in long distance telephony and specific business sectors. It said yesterday that paging had been a profitable business with over 250,000 users, including 100,000 customers for its "calling party pays" service.

It was, however, no longer central to its strategy.

Mercury owned 51 per cent of Mercury Paging; the other shareholders were Mobile Telecommunications Technology Corporation (29 per cent) and Motorola (20 per cent). All three groups have sold their shares to the new team.

The new group is led by Mr Richard Reiss and Ms Janice Fuellhart. Mr Reiss is a managing partner of Cumberland Associates, a private investment firm.

The new venture is jointly financed by the management and a group of international investors led by CS First Boston and Metropolitan Life Insurance.

The operator will be renamed Page One Communications.

BTR pays £20m for US valve maker

By Ross Tieman

Undeterred by investor concern over its debt burden, industrial conglomerate BTR has spent £20m ($31.2m) to reinforce its strength in the manufacture of specialised industrial valves.

It has bought Vogt Valves, based in Louisville, Kentucky, from the Henry Vogt Machine Company, a private US engineering group. The business, which makes low-pressure valves for refining, petrochemical and similar plants, will be integrated with BTR's Edwards Valves business in Raleigh, North Carolina.

BTR has annual valve sales of £250m. It claims a 15 per cent share of the world market for valves used in processing plants, and 13 per cent of the market for valves in the oil and gas industry.

Edwards, which specialises in high-pressure valves used in electricity generating plants, is number two in the US to Velan.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Apta Healthcare	Yr to Apr 30	11.8	(6.14)	1.5	(0.859)	1.5†	(1.2)	0.5	Sept 4	0.5	0.9	0.9
Automated Security	6 mths to May 31 ★	77.3	(80)	2.23L♠	(11.7L♠)	3.4L	(11.3L)	nil	-	nil	-	nil
Eidos	15 mths to Mar 31 ☆	3.71	(0.254)	1.95L	(0.108L)	44.6L†	(4.16L)	-	-	-	-	-
Ellis & Everard	Yr to Apr 30	584.1	(513.5)	25.6	(13.3♠)	20	(8.9)	6.2	Oct 7	5.7	9.2	8.4
Shandwick Intl	6 mths to Apr 30	89.2	(82.3)	3.57	(3.22)	1.9	(1.7)	0.43	Sept 20	0.43	-	1.3
Waste Management	6 mths to June 30	607	(576.6)	75.3	(71.9)	12.3	(12.2)	-	-	-	-	-
Wessex Trust	Yr to Mar 31	1.49	(1.04)	0.086L	(0.183L)	0.214L	(0.9L)	-	-	-	-	-

Investment Trusts	NAV (p)	Attributable Earnings (£m)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Henderson Highland	-	-	-	1.5‡	Aug 30	1.45	-	5.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. †On increased capital. ★Comparatives restated. ☆Comparatives for 12 months. ‡First interim.

Treasuries lower ahead of Greenspan speech

By Lisa Bransten in New York and Conner Middelmann in London

US Treasuries posted modest losses in thin trading early yesterday as investors awaited testimony on Thursday from Mr Alan Greenspan, chairman of the Federal Reserve, about the state of the economy.

Near midday, the 30-year Treasury was off 3/32 at 87 1/16 to yield 7.040 per cent, the two-year note was 1/32 lower at 99%, yielding 6.300 per cent, and the September 30-year bond future was down 11/32 at 108.

Mr Kevin Sluder, senior fixed-income trader at First Chicago Securities, said the market's focus was firmly on Mr Greenspan's biannual Humphrey-Hawkins testimony, in which he is expected to prepare the market for an interest rate increase in August. Trading was "lethargic" yesterday, he said, because investors were wary of buying bonds before an interest rate increase.

Most on Wall Street expect the Fed to raise short-term interest rates by at least 25 basis points at the August 20 FOMC meeting because of the sharp increase in employment over the past five months.

Traders were also awaiting data on June consumer prices and industrial production due today to help them assess the strength of the economy.

Less attention was paid to the equity market yesterday, although share prices continued to fall. Last week, bonds gained as investors fled to the safety of the bond market as stock prices tumbled.

■ Europe's government bond markets were depressed by interest rate jitters in the US and Europe. While dealers were casting a nervous eye across the Atlantic for signs of US interest rate tightening, they were also digesting the implications of last Friday's 10-basis-point increase in the Dutch central bank's 'special advances' money market rate, to 2.70 per cent.

Although the move was widely seen as a purely technical reaction to firmer Dutch money market rates, it has had an important psychological impact on European markets, fuelling speculation that the European easing cycle has come to an end and interest rates are set to rise.

GOVERNMENT BONDS

"Short-term, we would be tempted to say it's all a storm in a tea cup, but the Dutch move is bound to put pressure on European markets and European convergence trades short-term, especially set against the US backdrop," said Mr David Brown, chief European economist at Bear Stearns.

However, he noted that higher rates across Europe would make it more difficult for governments to meet the Maastricht criteria for European monetary union on budget deficits and public debt.

A "double whammy" of fiscal and monetary tightening could push Europe into a downward spiral of slower growth, higher interest rate servicing costs and bigger, not smaller, budget deficits ahead, he warned. Thus, "it is fairly safe to assume that the first substantive rate hike in core Europe is still a long way off".

■ Interest rate jitters took a particularly heavy toll on Europe's high-yielding bonds, which have been the best performing markets in recent months.

In Italy, last week's political tensions, coupled with fading hopes of a rate cut and the lira's resulting weakness against the D-Mark, prompted selling yesterday.

"Investors have spent months waiting for good news on the ERM and rate cut fronts, but those hopes have evaporated and we saw some serious profit-taking today," said one dealer.

As a result, Italian 10-year bonds under-performed the rest of Europe, their yield spread over German bunds widening by 10 basis points from Friday to 299 basis points.

The Swedish government bond market also suffered amid fears of higher European rates and krona weakness: Sweden's 10-year yield spread over bunds widened by 5 basis points to 184 basis points.

■ German bunds held up better than most European markets, buoyed by the stronger D-Mark, although sentiment was dampened by worries over Russian President Boris Yeltsin's health, and interest rates.

The main focus today will be the Bundesbank's first quarterly auction of its new six-month money market bills, dubbed Bu-Bills. The central bank is expected to offer DM10bn of bills yielding around 15 to 20 basis points below Libor.

Some observers felt that demand might be dampened by the uncertain rate outlook in Germany, but others thought strong international demand for the paper would ensure its absorption. Mr Christoph Anhamm, bond strategist at Union Bank of Switzerland in Frankfurt, expects strong interest from international central banks and institutional investors, some of which are establishing so-called bar-bell trades, where they sell the medium maturities and buy the short and long ends of the yield curve.

■ UK gilts also weakened yesterday, weighed down by looming supply – an expected £4bn of bonds in the last week of July – and dragged lower by the US market. The UK 10-year yield spread over Germany widened to 157 basis points from 154 on Friday.

Mexico FRN rated investment grade

By Samer Iskandar

Mexico has been awarded an investment grade rating for its $3bn floating-rate issue by Moody's, the international credit rating agency. The transaction was structured with the help of the Federal Reserve Bank of New York. The Baa3 rating is higher than the Ba2 "sovereign ceiling" on Mexico's debt rating.

Mexico's sovereign ceiling reflects the "transfer risk of foreign currency", Moody's explained. In the case of the new structured deal, this transfer risk was reduced by the diversion on a daily basis of payments owed to Mexico directly to the New York Fed.

According to the rating agency, "key structural features ... include arrangements requiring existing and future purchasers of most Pemex [the national oil company] oil exports to make payments directly to Swiss Bank Corp, and SBC's obligation to remit these payments daily" to the New York Fed.

Moody's said holders of the new notes would benefit from "credit support mechanisms that are substantially similar to the arrangements supporting certain medium-term swaps between Mexico and the US Treasury".

In case of default by Mexico on its debt, the money held by the Fed will be transferred to the trustee for immediate payment to note holders.

In making its assessment, Moody's also looked at different scenarios of oil price changes, as well as oil export cash flow. It said existing holders of Pemex bonds would not be affected by the transaction, because Pemex receivables are not given as collateral.

However, Moody's warned that changes in the ratings of Mexico or Pemex, and its assessment of Pemex's ability to continue exporting sufficient oil, may affect the Baa3 rating of the structured notes.

It also said its prospective rating addressed the likelihood of full payment of interest within six months of scheduled payment dates and the ultimate principal payment less than one year following the expected final payment date.

J.P. Morgan Securities and SBC Warburg, the investment banking arm of SBC, are co-arrangers for the offering.

UK sets new benchmark with $2bn offer of five-year notes

By Samer Iskandar

The United Kingdom yesterday took advantage of attractive market conditions to announce the issue of $2bn of five-year notes, as part of the Bank of England's "routine debt management".

Expected to be priced today to yield 5 basis points over the benchmark US Treasury note, the UK paper looked expensive in absolute terms, but met strong demand on a when-issued basis, with the spread narrowing to 4 basis points.

"This is a new benchmark for the eurodollar market," said one bond salesman. "Everybody felt they had to buy it." The total amount was well oversubscribed, with lead managers Goldman Sachs and SBC Warburg registering orders for more than $3.5bn.

The UK is a "very rare borrower ... of the highest quality", said a syndicate manager at SBC Warburg. "This is only its second ever eurodollar straight bond."

INTERNATIONAL BONDS

"We are delighted with the market response," said Mr Ian Plenderleith, Bank of England executive director. "Despite being tightly priced, [the issue] received a very positive market response."

Proceeds of the new bond will refinance part of a $4bn floating-rate issue maturing at the end of September.

Elsewhere, Austria's OKB followed the EIB's lead and tapped the Ecu market for Ecu250m. Lead manager SBC Warburg said there was good demand from European institutions and Swiss retail buyers, owing to a large number of recent Ecu bond redemptions.

The Ecu market has attracted little interest of late because of uncertainty over the timing and technical aspects of European monetary union.

SBC Warburg said OKB's issue documentation had been carefully worded to reassure investors that the bonds would not be redeemed in Ecu component currencies but in euros – the future single currency – at the official parity set out in phase 3 of Emu.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
United Kingdom	2bn	(a)	(a)R	Jul 2001	0.25R	-	Goldman/SBC Warburg
Bangkok Bank(b)§	350	(1-1½)	100.00	Aug 2006	2.50	-	Deutsche Morgan Grenfell
Girocredit Bank(c)‡	100	(c1)	99.902R	Jul 2006	0.40R	-	Morgan Stanley & Co Intl
Unibanco(l)	100	9.375#	99.732R	Sep 1999	0.875R	+290(7¼%-99)	Citibank International
World Bank(d)	50	6.70#	100.00	Jul 1999	none	-	Salomon Brothers Intl
Banco BMG	50	(a)#	(a)R	Jul 1999	1.00R	+590(6¾%-99)	ANZ Banking Group
■ D-MARKS							
Metro Finance(s)	300	4.50	99.95R	Nov 1998	0.1875R	+25(5¼%-98)	Deutsche Morgan Grenfell
■ YEN							
Sumitomo Realty & Dev(s)★	20bn	3.00	101.725	Sep 2001	1.875	-	Daiwa Europe
Sumitomo Realty & Dev(s)★	10bn	2.95	101.875	Jan 2001	1.875	-	Daiwa Europe
■ GUILDERS							
Achmea Hypotheekenbank	300	6.75	99.375R	Aug 2006	0.425R	+32(l)	ABN Amro Hoare Govett
■ LUXEMBOURG FRANCS							
Banque International à Lux(l)	2bn	6.00	102.50	Nov 2001	1.75	-	BIL
■ CANADIAN DOLLARS							
Toronto-Dominion Australia(s)	100	7.00	99.72R	Dec 2000	0.25R	+5(7½%-00)	Toronto-Dominion Bank
■ ECU							
Oest Kontrollbank(f)	250	5.75	99.18R	Aug 2001	0.25R	-11(6%-01)	SBC Warburg
Bayerische Hypo(l)	60	6.25	101.375	Oct 2001	1.875	-	BIL
Norddeutsche Landesbank	55	(g)	101.90	Aug 2002	1.875	-	Kredietbank Intl Group
■ ESCUDOS							
CBPO(h)‡	7.5bn	(h1)	100.00	Aug 2004	1.00	-	Cisf/Espirito Santo/Finantia

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) Fixing: approx 24/7/96. Convertible into 3 parts domestic shares to 1 part foreign at 20-24% premium over domestic share price. Puttable in 5 yrs at 105-80bp below Treasuries. Callable after 5 yrs with 140% hurdle for 2 yrs and 100% hurdle thereafter. Greenshoe: $50m. c) Callable from 1/8/01 at par. c1) 3-mth Libor +⅛% to 31/7/01, then +1⅛%. d) Callable on coupon dates from July 97 at par. e) Short 1st & second coupons. f) Spread related to French govt Ecu BTANs. g) 5¾% to 30/8/99, then 8%. h) Callable & puttable in Aug 99 at 100.15% and 99.70% respectively and in Aug 01 at 100.075% and 99.80%. l) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

Salomon issues Russian equity call warrants

By Samer Iskandar

New call warrants allowing international investors easier access to the Russian equity market have been launched by Salomon Brothers.

The issue lets investors circumvent the local stock custody system which can make buying physical stock complicated and time-consuming.

The 12.5m European-style warrants have been issued on a basket of five shares – Chernogorneft (oil), Irkutskenergo, (utilities, electricity), Lukoil (oil), Mosenergo (utilities, electricity), and Rostelecom (telecommunications).

The warrants have a multi-currency structure and can be traded and exercised in dollars, D-Marks, escudos and Swiss francs, reflecting the most likely origins of demand for the product.

Salomon Brothers is applying to list the warrants in Frankfurt and on other German exchanges. The minimum trading size of the calls, which can only be exercised on the day they mature, is 500.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	10.000	02/06	107.1070	-0.230	8.88	8.82	8.97
Austria	6.250	05/06	97.4200	-0.050	6.51	6.59	6.44
Belgium	7.000	05/06	101.1700	-0.080	6.83	6.87	6.72
Canada *	7.000	12/06	94.8400	-0.110	7.73	7.91	7.65
Denmark	8.000	03/06	104.2200	-0.040	7.36	7.44	7.45
[illegible]							

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
9550	0.47	0.76	0.51	0.82	0.15	0.44	1.09	1.40
9600	0.18	0.49	0.33	0.62	0.36	0.67	1.41	1.70
9650	0.05	0.29	0.21	0.46	0.73	0.97	1.79	2.04

Est. vol. total, Calls 5734 Puts 7501. Previous day's open int., Calls 162634 Puts 174304

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jul 15	Day's change %	Fri Jul 12	Accrued interest	xd adj. ytd		Low coupon yield Jul 15	Jul 12	Yr. ago	Medium coupon yield Jul 15	Jul 12	Yr. ago	High coupon yield Jul 15	Jul 12	Yr. ago
1 Up to 5 years (22)	122.19	-0.02	122.21	2.53	5.12	5 yrs	7.26	7.25	7.96	7.33	7.30	7.95	7.40	7.38	8.04
2 5-15 years (20)	146.26	-0.22	146.59	2.01	6.39	15 yrs	8.14	8.11	8.25	8.15	8.11	8.30	8.23	8.20	8.39
3 Over 15 years (8)	161.04	-0.32	161.55	3.39	6.30	20 yrs	8.23	8.21	8.28	8.23	8.19	8.32	8.29	8.27	8.40
4 Irredeemables (6)	183.29	-0.05	183.38	2.60	6.36	Irred.†	8.29	8.28	8.34						
[illegible]															

US INTEREST RATES

[illegible]

BOND FUTURES AND OPTIONS

[illegible]

FT FIXED INTEREST INDICES

[illegible]

GILT EDGED ACTIVITY INDICES

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

LEBANON

An uncertain revival ahead

Beirut waits on the decisions of outside forces and interests before charting its own future, David Gardner argues

For 17 days in April, Lebanon yet again became the preferred battleground of a Middle East still far from peace. Israel bombarded the country from the air, land and sea, in response to the actions of the Shi'ite Moslem guerrillas of Hizbollah, licensed by Syria in their fight against Israel's occupation of southern Lebanon. This, essentially Israeli-Syrian conflict has placed a question mark against Lebanon's ability to recover from the 1975-90 civil war and rebuild itself so as to become again the thriving services and financial entrepot it was before.

And yet ... The Lebanese have proven over the years to be extraordinarily resilient, and the April bombardment forced them to rediscover themselves as a nation. This was a sense they all but lost in the tribal slaughter of the civil war between and within the country's 17 minority communities. That war brought Lebanon under Syrian hegemony and left 12 per cent of its territory under Israeli occupation. "Never in the history of Lebanon since its independence have the people been so united," says Mr Fouad Sanioura, finance minister in the government of Mr Rafiq Hariri. This great upsurge of popular unity, embracing all sections of the community from Shi'ite fundamentalists to the Maronite Christians, allies of Israel during the civil war in a vain attempt to preserve their dominance of Lebanon, has raised hopes that, yet again, the Lebanese will be able to turn a disaster into an opportunity.

But in May, Israelis elected Mr Benjamin Netanyahu at the head of a hardline government led by Likud, which includes as ministers Mr Ariel Sharon and Mr Raphael Eitan, the generals who launched the full-scale invasion of Lebanon in 1982, which was the most devastating of six big Israeli operations against the country since 1968. Lebanon has cause to wonder what this means for its reconstruction ambitions. "The Lebanese know the people around Netanyahu very well," says a senior government official, "and they are very afraid."

He and others in the government question whether Lebanon can begin emerging from its subordination to Syria while the risk of further conflict with Israel persists. Or indeed whether it can recover its pre-war status as the West's window on the Middle East and re-establish itself as the region's main financial centre.

US and French mediation ended April's hostilities, not with a ceasefire but by writing down the rules of engagement agreed verbally after Israel's last big incursion into Lebanon in July 1993. This allows Hizbollah to continue its attacks on Israeli forces inside the so-called security zone Israel occupies as a buffer for its northern border, and Israel to retaliate, provided neither side fires on or from civilian positions. Approval was given to a text covering arrangements to monitor the ceasefire by officials from the US, France, Israel, Lebanon and Syria in Washington on July 12.

Israel had intended to cause damage to Lebanon's re-emerging infrastructure on a scale that would force Beirut and Damascus to act against Hizbollah. Roads and reservoirs, power stations and bridges, as well as hundreds of Shi'ite homes in the south, were destroyed, and over 400,000 refugees were driven northwards.

Yet Hizbollah emerged not only intact, but with greatly enhanced prestige for standing its ground against Israel, whose land forces it harried out of most of Lebanon in 1983-85. Only 14 of its fighters were among the total of more than 200, mostly civilians, who died. "I'm not aware of any other movement which has this popularity," says Sheikh Hassan Nasrallah, its 36-years old leader, who said last month that Hizbollah wants to enter government. "We want to be part of the political life of Lebanon, to participate in its administration and in dealing with its problems," he said. Mr Hariri rules this out, but acknowledges its power.

"We said from the beginning [Israel] would not succeed in destroying Hizbollah, and they did not," Mr Hariri said in an interview last month. "They have tried all sorts of methods to get security on their northern border," he adds, but "none of their [acts of] aggression has worked." What would work, the prime minister contends, is for Mr Netanyahu to withdraw Israeli forces and give way to the reconstituted Lebanese army. "With no occupation there will be no resistance," he says, pledging to wind up Hizbollah in the same way all the other civil war militias were disbanded. "We are ready to assure security on our borders."

Mr Hariri did indeed warn Hizbollah in May against escalating the conflict in the south, a move seen then as the first step towards reining in the guerrillas. But Mr Netanyahu's election, and the inclusion in his government of Mr Sharon who in April advocated taking all of south Lebanon up to the Litani river, has given Hizbollah a new lease of life.

KEY FACTS

Area	10,452 sq km
Population	3.09 million
Head of state	President Elias Hrawi
Prime minister	Rafiq al-Hariri
Currency	Lebanese pound (L£)
Average exchange rate	1995 $1=L£ 1621.45
	1996[1] $1=L£ 1582.99

ECONOMY

	1995[2]	1996[2]
Total GDP ($m)	10,315[3]	n/a
Real GDP growth (%)	7.0	8.0
Components of GDP (1994, %)		
Private Consumption	109.9	n/a
Total Investment	28.3	n/a
Government Consumption	11.6	n/a
Net Exports	-49.8	n/a
Annual change in:		
Consumer prices (%)	15.0	15.0
Money supply (M1,Q4,%)	9.4	n/a
Reserves minus gold ($m)	4,533	n/a
Total external debt ($m)	2,500	n/a
Government budget bal.(L£ bn)	-2,495	-2,428
Current account balance ($m)	-4,809	-5,250
Exports ($m)	982	1,130
Imports ($m)	6,721	7,500
Trade balance ($m)	-5,739	-6,370
Main trading partners (1994, %)[4]	Exports	Imports
Saudi Arabia	12.8	n/a
Switzerland	12.2	n/a
UAE	11.1	n/a
Syria	9.1	5.3
Kuwait	6.6	n/a
Jordan	4.9	n/a
EU	15.1	44.9

(1)Year to date.
(2)Estimates unless otherwise stated.
(3)Derived from IMF figures.
(4)Share of world trade.
Source: EIU; Datastream.

Reconstruction in Beirut; but it must extend to the rest of the country riven by years of civil war and battered by Israeli attacks

In these circumstances, no government in Beirut – much less one under the tutelage of Damascus – would risk confronting an organisation which enjoys the legitimacy of a national resistance movement.

President Hafez Assad of Syria, moreover, is unlikely to want to surrender his Hizbollah allies when the Netanyahu government has ruled out his main demand – the return to Syrian sovereignty of the Golan Heights, seized by Israel in the 1967 Arab-Israeli war.

Yet very senior officials in both Beirut and Jerusalem do not rule out entirely the possibility of Israeli withdrawal. This would not be as part of a peace deal, which Syria would not allow Lebanon to negotiate separately, but in compliance with UN Security Council Resolution 425, passed in 1978 and calling on Israel to return all Lebanese land.

The move has three possible attractions for Israel. First, the security zone does not provide security, but a flow of Israeli casualties which is rising as Israel's client militia, the South Lebanese Army, crumbles.

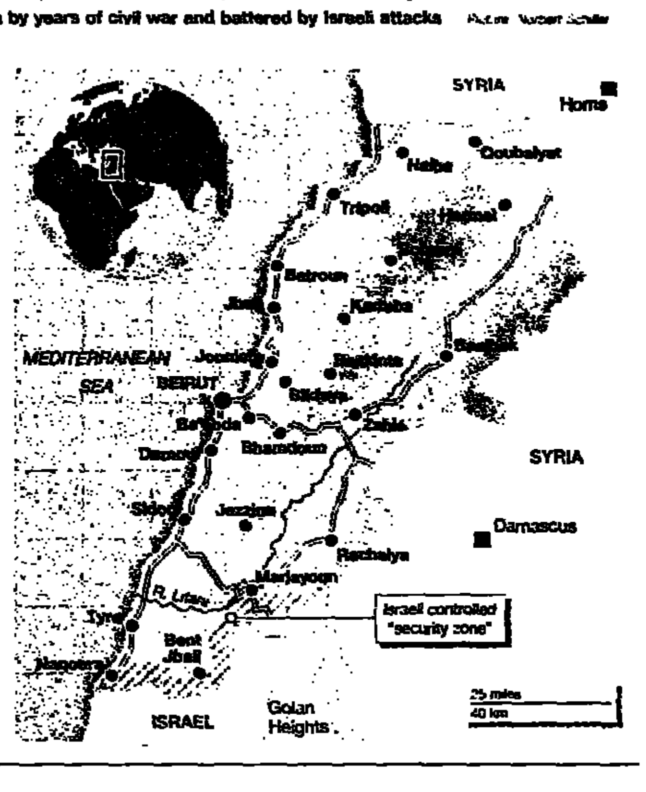
Second, if the Lebanese army did replace Hizbollah on the border, this would be popular in Israel, and Mr Netanyahu could present himself internationally as a peacemaker.

Third, Israel could corner Syria, which could hardly object to Israel complying with a demand of the Arab world as well as the UN.

The attraction to Lebanon of regaining control of its territory is immeasurable. It would loosen Syria's grip on the country, and dispel the uncertainty over the reconstruction of its economy.

The economic cost of the April attack in vandalised infrastructure and lost growth is variously estimated at

Continued on Page III



■ **Capital markets:** by Roula Khalaf

Regional role kept waiting

Confusion about the official and secondary markets hinders the bourse's development

Earlier this year, Lebanon started to send signals that it could reclaim its former role as a regional financial centre. Foreign banks such as ING and Flemings opened offices with an eye on turning them into regional bases; local banks successfully tapped international markets for finance; and institutional investors in London and New York sent teams to explore investment opportunities.

Then came the April Israeli bombardment, which highlighted the country's vulnerability and the desperate need for comprehensive peace in the region if Lebanon's economic and financial hopes for the future were to be realised. The April attacks and the subsequent election of a hardline Likud government in Israel have thrown the peace process into doubt and raised the level of Lebanon's political risk not least in financial terms.

Lebanese bankers and government officials, however, remain outwardly undisturbed. The Israeli attacks were a serious setback; peace may now be much harder to reach, but turning the country into a regional centre is a long term objective; one which can wait, they said.

In the meantime, however, Lebanon has had to continue with the development of its capital markets. This is not just the centrepiece of its plans to re-establish itself as a financial entrepot, but also an essential element in raising finance for its ambitious reconstruction projects.

If foreigners are now forced to shelve plans to set up a regional base in Beirut, some foreign as well as Lebanese investors seem still willing to buy Lebanese paper, as evidenced by a successful $100m eurobond issue following the April attacks and a more recent $60m eurobond for Credit Libanais, which is 97 per cent-owned by the central bank.

The effort to develop capital markets has proved slower and more complicated than both the government and the private sector had anticipated.

Lebanese investment bankers tend to lower their voices when the discussion turns to the Beirut stock exchange. Why publicise the fact that on some days, no more than a few hundred dollars changes hands in the four stocks listed? Or that the market has a total capitalisation of under only $400m while another parallel secondary market under the supervision of the central bank has a $2bn capitalisation and lists a single stock?

The Lebanese bourse opened in January amid much fanfare – it was to be one of the region's few vibrant exchanges open to foreign investors. But regulatory delays, reluctance on the part of the mostly family-owned companies to open up their capital, and confusion about the two exchanges, have hindered the development of the bourse.

Because stricter rules on the official stock exchange have led to fewer brokers than on the secondary market, Solidere, the real estate company developing the historical downtown area of Beirut, is still traded on the more liquid secondary market, which was created specifically for the company.

Rivalry between the central bank and the ministry of finance, under which authority the bourse falls, is also delaying the merger. Both stock exchange and Solidere officials, however, say they expect the two exchanges to merge eventually.

The creation of capital markets requires the development of a legal environment, of intermediaries, instruments, and a process of education. Lebanon is working on all four fronts.

Until a year ago, Lebanon's banks had a monopoly on all kinds of mediation. And there was not much of it. With the high rates paid on Treasury bills to maintain the stability of the currency – rates reached 40 per cent last autumn – and stiff reserve requirements, the banks, for the most part, took deposits and invested in T-bills. During the past year, however, new investment banks, in particular, the Beirut-based Lebanon Invest, which was started with Gulf money, have weakened the banking monopoly by highlighting to both investors and businesses the availability of other forms of finance, such as equity issues.

For example, the bank announced in May that it had secured a $31m private placement for the reconstruction of the Phoenicia Intercontinental Hotel in Beirut, one of the city's most famous hotels before the civil war. Phoenicia has now applied for a listing on the exchange.

Commercial banks have taken stock of the potential for corporate finance deals and are setting up their own investment banking arms, while foreign banks have opened offices in Beirut.

Earlier this year, the Middle East Capital Group, backed by the International Finance Corporation and BZW, the investment arm of Barclays bank, chose Beirut as its regional base to channel capital into the Middle East. The group is now arranging $20m in finance for Lebanon's Al Bustan hotel.

The legal framework has become more accommodating, but not yet complete. A new law issued last month expanded the sector's business prospects by allowing banks to manage fiduciary accounts, a development bankers consider as significant as Lebanon's bank secrecy laws.

Another law now allows banks to float up to 30 per cent of their shares on the stock exchange without prior central bank approval of each shareholder, as had been the case in the past. "I would not be surprised if in two to three years from now banks are the mainstay of the bourse," says Mr Nasser Saidi, the central bank vice governor.

While this measure will encourage banks to open up their capital, some bankers say they will wait for the stock exchange to set up a supervisory body before issuing shares. "There is an awareness of the need for capital markets, there is a willingness but the only thing that has not been mastered is time," says Mr Freddie Baz of Banque Audi.

The banks have been at once the driving force behind the development of Lebanon's capital markets and a main obstacle. Having enjoyed huge profit margins for the last few years by financing the government, many banks are reluctant to spend money on attracting talent to develop businesses based on fee income or create new products. Nor are they encouraging clients – most of which are family-owned businesses – to look at financing outside the banking system and to open up their capital.

■ **Economy:** by Roula Khalaf

Slowed after the storm

Stability of the currency is the backbone of the government's economic policy

LEBANON
Principal economic indicators

	31/12/94	31/3/95	31/12/95	31/3/96
Commercial bank deposits (L£bn)	20,349.8	21,283.3	23,864.1	24,900.4
Private sector claims (L£bn)	8,169.3	8,962.7	10,694.7	11,379.3
Inflation (% in L£)	12.05	2.20	9.92	1.78
Internal public debt (L£)	9,320.8	9,181.8	11,997.2	12,798.5
Beirut port (ships)	3,359	919	3,443	838
Beirut airport (passengers)	1,438,298	282,426	1,612,340	306,029
Construction permits (sq m)	22,388,160	6,063,596	34,031,586	2,988,759
Minimum salary ($)	120.0	182.9	158.7	158.0
Work permits	45,530	9,704	n/a	n/a
Net foreign assets ($m)	9,568.8	9,358.0	9,892.2	9,978.4
Customs receipts ($'000)	471,575	136,203	825,646	245,832
Electricity production (kWh m)	4,591	1,140	4,623	1,657
Cement delivery (tonnes)	3,466,428	802,111	3,977,794	690,177

Source: Banque Audi

The most damaging consequence of the Israeli bombardment of Lebanon in April beyond the devastation wreaked on southern villages and rehabilitated infrastructure is the estimated 1 per cent to 2 per cent it will shave off economic growth this year. This, coupled with the political uncertainty about the Middle East peace process as well as local parliamentary elections later this year, will present serious challenges to Lebanon's economic policy makers in the coming months.

Even before the Israeli attacks, economic growth was sluggish as high interest rates on Treasury bills crowded out the private sector, and the construction sector, a main magnet of capital inflows, drew close to saturation.

According to Banque Audi, considered the most authoritative guide to macro-economic statistics, gross domestic product growth in the first quarter was a mere 3 per cent, compared with the 7 per cent recorded in the whole of 1995 and the 8.5 per cent in 1994.

Because any eventual pick up of the economy is largely a function of regional political developments outside Lebanon's control, Lebanese officials prefer, however, to focus attention on the brighter side of things.

To them, the Israeli attacks provided intangible benefits – a demonstration of national unity which until recently remained elusive and a newly-found resilience in the Lebanese pound.

Lebanese officials were greatly relieved and surprised that the Israeli offensive did not fuel a run on the Lebanese pound. After spending $200m in the first two days of attacks to buy Lebanese pounds, the Lebanese central bank was able to recover the same amount by the end of the operation.

Several factors lie behind the reserved attitudes and reactions of Lebanese individuals and institutions. They did not expect the attacks to last long and the markets were closed for a good part of the 17-day crisis. The central bank, now more adept at managing political crisis, averted a panic by offering to sell as many dollars as were in demand and by not raising the discount rate.

Moreover, with the bulk of local currency deposits tied up in high-yielding T-bills, selling off these would have meant discounting them up to 30 per cent, a loss most holders were not willing to take.

The stability of the currency is the backbone of the economic policy followed by the Hariri government since taking office in 1992. Albeit at a high cost, keeping the pound stable is considered the prerequisite to sustained growth in the long term, as it can act as a focus to attract the capital inflows needed to finance a $60bn 13-year reconstruction programme towards which the private sector is expected to contribute $42bn.

But the slight appreciation in the pound, of the order of about 3 per cent a year, does not reflect the true state of the Lebanese economy. To bring about the stability of the pound, the private sector, which has always fuelled economic growth and traditionally accounted for 85 per cent of production, has now turned to financing the government.

When a domestic political crisis last year led to pressure on the pound, the central bank raised rates paid on T-bills to up to 40 per cent. According to Banque Audi, by the end of the year, the state had absorbed 44 per cent of bank financing available while contributing only 22 per cent of production.

More than $2bn worth of T-bills are due over 6 weeks between October and November this year. Under normal circumstances, the government should be able to roll over all the bonds.

But economists say a political crisis closer to the date of maturity could cause trouble. "The state could repay but the question is whether people would then choose to convert into dollars and this decision is related to the political situation," says one economist.

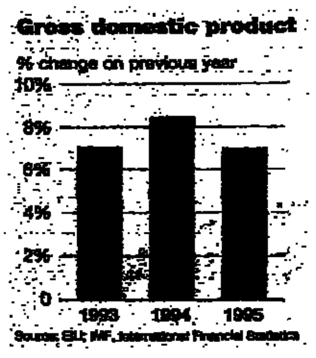
In addition to stifling private sector investment, the government's monetary policy has led to a mountain of domestic debt. While foreign debt is only $1.3bn, the net public debt now stands at about $6.5bn, and debt service stands at 30 per cent of total government spending.

This helps finance a deficit that consistently exceeds official targets.

Although on a downward trend, last year's projection of

Gross domestic product

% change on previous year



Source: EIU; IMF, International Financial Statistics

a deficit at 44 per cent of total spending was turned out as an actual deficit of 47 per cent. Largely due to the Israeli attacks, the deficit for the first four months of this year is estimated at 46.5 per cent, way ahead of the projected 38 per cent.

Probably the factor most important to the Lebanese economy is that the political uncertainty stemming from Israel's attacks and the result of its elections in May could have a negative effect on $6.5bn yearly capital inflows, despite the currency's stability.

Bankers and government officials point to the $100m eurobond issue Lebanon was able to sell immediately after the offensive as proof that flows are likely to continue. In June, Credit Libanais, which is 97 per cent owned by the central bank, also managed to sell a $60m eurobond issue, the first by a Lebanese corporate issuer. Indeed, about $2bn flowed into Lebanon in the first four months of this year (including April), up about 10 per cent over the same period last year.

But Mr Rafiq Hariri, the prime minister and a billionaire businessman who has injected much of his own fortune into Lebanese projects, knows that the country could face a problem if regional political developments or domestic parliamentary elections in August cause a crisis. "It is normal for businessmen to be hesitant but the economy can afford a few months of slow down in capital flows," he says. "If the situation continues in the long term, then it will be different, but I don't think it will continue."

One way to offset any eventual decline is to speed up grants and soft loans received by the government for reconstruction. The ceasefire agreement reached in April stipulates the formation of a consultative group to assist in financing Lebanon's reconstruction. Although the group has yet to be formed, Mr Hariri is asking for $5bn in grants and soft loans to be paid over 5 years.

Lebanese officials say that a large portion of the inflows (which they cannot quantify) is in the form of remittances which are received by families regardless of the political situation. Another source is the spending by Lebanese expatriates who return home for the summer months, and this is also unlikely to be severely affected unless further fighting breaks out over that period. Inflows destined for long-term productive investments could also be replaced by short-term and and more liquid investments into Lebanese traded paper.

The extent of the slowdown in capital flows will determine whether the balance of payments comes under pressure and derails efforts to prop up the Lebanese pound. Capital inflows have more than offset the $5bn trade deficit – about 50 per cent of estimated GDP – Lebanon has been recording in recent years. But the $1.1bn balance of payments surplus recorded in 1994 had shrunk to a mere $256m last year.

Advisers to Mr Sanioura point out that the Lebanese economy has weathered many storms before and the rise in central bank net foreign exchange reserves – to $3.3bn in mid-June from $2.7bn at the end of last year – is a safety cushion against any eventual pressure on the currency.

But the long-term growth of the economy and viability of the reconstruction plan will continue to hang on perceptions of the regional political equation.

As one banker put it: "Regional developments can make or break Lebanon. But regional issues are outside our control so in the meantime we have to manage the crisis the best way we can."

Interview: Rafiq Hariri

Used to getting things done

David Gardner reviews the political and personal challenges facing the premier

There cannot be many countries with a currency that brushes off an invasion but starts to collapse if one man threatens, as he periodically does, to resign. But Lebanon is no ordinary country, and that man is prime minister Rafiq al-Hariri, the self-made billionaire who has cast himself as the saviour of the country which tore itself to bits in the 1975-90 civil war.

When Israel launched its 17-day bombardment of Lebanon in April, the Lebanese pound blipped for one day and then, with minimal central bank intervention, showed no loss of strength. Yet when Mr Hariri "resigned" and was reappointed in May last year there was a run on the pound. Indeed, in the eight months prior to his taking over as premier in October 1992, the pound lost 55 per cent of its value whereas it has since appreciated by nearly 30 per cent.

The normally affable and brash Hariri is uncharacteristically bashful about discussing it, but judges that "the currency is now stronger and less dependent on me. I think I will have succeeded," he reflects, "when anybody, including me, can be prime minister without it making any real difference."

Until then, however, Mr Hariri's ambitions to restore Lebanon's pre-war prosperity by relaunching it as a regional services entrepot and capital market have interwined the country's fate with his own political survival.

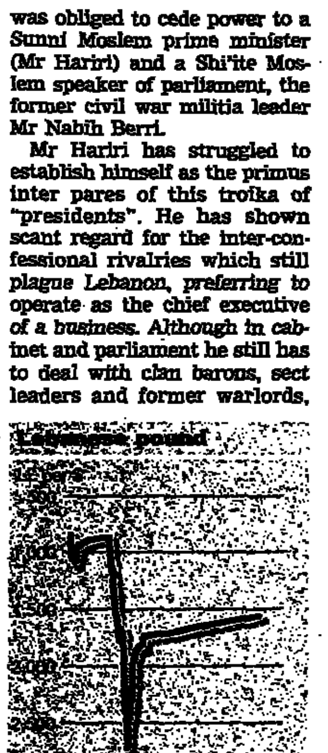
Mr Hariri, 51, came to the fore through the 1989 Taif agreement which ended Lebanon's sectarian bloodshed the following year, and took over when by 1992 it was clear this new dispensation had failed to halt Lebanon's drift. Until then, he was known in Lebanon mainly for the reputed $4bn fortune he amassed from Saudi construction projects, and for the around 50,000 scholarships he endowed to educate Lebanese abroad.

The Taif accord rebalanced power between Lebanon's three main groupings, while maintaining the pre-war structure. The presidency, through which the Maronite Christians had lorded it over the country's 16 other communities until they lost the civil war,

Rafiq Hariri: a broad range of international contacts Picture: Reuter

was obliged to cede power to a Sunni Moslem prime minister (Mr Hariri) and a Shi'ite Moslem speaker of parliament, the former civil war militia leader Mr Nabih Berri.

Mr Hariri has struggled to establish himself as the primus inter pares of this troika of "presidents". He has shown scant regard for the inter-confessional rivalries which still plague Lebanon, preferring to operate as the chief executive of a business. Although in cabinet and parliament he still has to deal with clan barons, sect leaders and former warlords,



he operates through a network of business associates and employees he has placed in key ministries and the government agencies in charge of reconstruction.

Mr Hariri is used to having his instructions carried out, and to distributing money freely to oil things along; staff say he habitually pays in cash, in large amounts but at irregular intervals. He is himself a key investor in Solidere, the $2.5bn private company which is recreating the devastated downtown area of Beirut as a financial and commercial centre, the showcase of reconstruction.

Admirers underline that, unlike many Arab leaders, Mr Hariri is putting his own money into Lebanon rather than using office for personal enrichment.

Critics say he is taking over Lebanon like a company in which he has become the chief shareholder. He himself points to results.

"There is in this country," he remarks, "a mix-up between freedom, democracy, and authority. The executive power has to be a homogeneous team – with a common view of the future of the country."

His opponents would point to the autocratic instincts underlying this ostensibly unexceptionable view of governing, citing as primary evidence his use of the army this spring against the trades unions.

Tens of thousands of workers defied his three year-old ban on demonstrations to protest against falling living standards and restrictions on private radio and TV ownership they believe favour Mr Hariri's own extensive media interests.

His exasperation with Lebanon's political class, however, is shared widely by the Lebanese, and it is one source of his popularity. But Mr Hariri has made no attempt to use this following to remould the confessional system into a new national consensus.

Syria's post-civil war hegemony over Lebanon, in which 40,000 Syrian troops guarantee the peace and Damascus arbitrates sectarian rivalries, limits his room for manoeuvre, certainly. As does the heightened tension between Israel and Syria following the election seven weeks ago of Mr Benjamin Netanyahu at the head of a hardline Israeli government.

But Mr Hariri's own instincts are to continue with Lebanon's physical reconstruction, irrespective of the risks of a new conflict in south Lebanon between Israel and the Syrian-backed militia of Hizbollah. "We will continue to rebuild, we will continue strengthening our security forces, and strengthening our international links," he says.

One of Mr Hariri's undoubted strengths is his wide range of international contacts. He used this artfully during the April crisis to ensure that Lebanon's voice was heard when its more powerful neighbours, Israel and Syria, were negotiating its fate.

His close personal relationship with President Jacques Chirac of France, for example, meant that Paris persisted with its mediation efforts despite active discouragement from Washington, and consequently that the April crisis ended on terms nearer those sought by Lebanon and Syria than to the initial Israeli demands backed by the US.

During and since April, Mr Hariri has spent long periods abroad, trying not only to win funds for reconstruction but also to build a louder voice for Lebanon.

He is philosophical about Lebanon's prospects if the new government in Israel blocks the Middle East peace process, pointing out that after five years of failed talks with Israel, "Lebanon just continued on its way, and we can continue for another five years."

Investors are naturally hesitant, he concedes, but this does not dim his belief that Beirut will re-emerge as a regional financial centre, this time as a sophisticated capital market channelling development funds into the Middle East rather than, as pre-war, a banking centre recycling surplus oil capital into western markets.

"There is no other alternative either for us or the rest of the region," he says. "In 17 years of civil war, no other country took the place of Beirut."

Hizbollah: by David Gardner

A forceful national party

It has been trying to reinvent its image but has always given priority to social activism

One of the paradoxes of Lebanon is that Hizbollah, a Shi'ite Moslem fundamentalist militia in a country still emerging from nearly 17 years of inter-confessional civil war between and within 17 minority communities, should be trying to articulate a national vision for the country.

Hizbollah (Party of God), was inspired and originally largely financed by the Shi'a Islamic revolutionary regime in Iran, and emerged with Syrian blessing after Israel's disastrous 1982 invasion, at the height of Lebanon's 1975-90 civil war. It won international infamy for the kidnapping of Western hostages and its suicide bombings in the 1980s.

In 1983, it humiliated the US into withdrawing from Lebanon, truck-bombing its marine barracks in Beirut and killing 241 soldiers, and destroying first its embassy in Moslem west Beirut and then the American delegation in Christian east Beirut. By 1985, Israeli forces had also retreated under attrition from Hizbollah and rival Shi'ite militias to the self-proclaimed security zone in the south, where they still hold 12 per cent of Lebanon's territory.

This continuing occupation has kept Hizbollah in business as a national resistance movement. Syria, which imposed its own peace on the rest of Lebanon, disbanded the civil war militias and reconstituted the Lebanese army, and left Hizbollah armed and in the field against Israel in the south. The organisation has a following not only among the poor Shi'ites of southern Lebanon, the Bekaa valley and southern suburbs of Beirut, but legitimacy among other communities too.

Its prestige was enhanced by its resistance to Israel's 17-days bombardment of Lebanon in April and, riding the wave of national unity that followed, Hizbollah now wants to enter government. "We represent a wide and popular trend," Sheikh Hassan Nasrallah, Hizbollah's 36-year old leader, told the FT last month, "and we want to participate in the political life of Lebanon and in the administration of the country, to achieve independence and prosperity for our people." This sort of sentiment sounds almost like a national platform.

It has sunk deep roots among the Shi'a – around a third of the population but the overwhelming majority of Lebanon's dispossessed – helped by an extensive social and welfare network. This includes hospitals and clinics, schools and centres of research and religious learning, orphanages and foundations for the families of resistance "martyrs". Jihad al-Bina'a (Holy War Construction), Hizbollah's building company, was the first on the scene in southern Lebanon and south Beirut after Israel's April onslaught, protecting against a popular backlash by promising to rebuild houses destroyed by Israel.

The extent to which Hizbollah is reinventing itself may only now be apparent, but from its inception it has prioritised social activism. One of its very first actions in 1983, a senior government official says, was to carry out a census of needs in the South and then meet them.

Money for that came from Iran, although this has shrunk to $60m a year according to Western intelligence estimates, and never exceeded $40m according to one Hizbollah insider. Donations from Lebanese Shi'a in West Africa, from

Nasrallah: 'a wide and popular trend' Picture: AP

Shi'ites in the Gulf, and in the form of Islamic tithes have made the organisation largely self-sustaining. The $100m Imamen mosque in the southern suburbs, which will include hospitals, schools and research centres, is for example being paid for by Mr Mohammed Hussein Bahman, a wealthy Kuwaiti Shi'ite.

Hizbollah's more overtly political projection – and its cross-community impact – has come from its assiduous work in parliament and its widely-watched Al Manar TV channel, a rare forum for serious debate on Lebanon's future. "Some would prefer us to remain aloof, like Sufi mystics or ascetics," says the black-turbanned Nasrallah, "but we want to express the will of the people."

But Sheikh Mohammed Hussein Fadlallah, the leading Shi'ite cleric regarded as the movement's spiritual guide, said in a separate interview last month that "there is an American veto on the entry of Hizbollah into the Lebanese government." Senior Lebanse officials confirm that the US State Department reacted strongly to speculation a year ago that the Islamists might join the government. But Mr Rafiq Hariri, Lebanon's Sunni Moslem and billionaire prime minister, dismissed the possibility out of hand, saying he could never work with a force seeking an Islamic state. "We don't need that comment from the US because we will simply not do it," he says. "Hizbollah is dreaming."

But the two Islamist sheikhs insist that Hizbollah has never pretended to an Iran-style Islamic regime in multi-confessional Lebanon. "We cannot impose our Islam on anybody by force," says Sheikh Nasrallah. Sheikh Fadlallah, who keeps his distance from Hizbollah, says the Islamists could be only "one element in an ideological contest" embracing all Lebanon's communities. Sheikh Fadlallah, the survivor of over 10 attempts on his life including a 1985 car-bomb in the now fortress-like Bir el-Abed district of south Beirut which killed 84, has a wide following among Shi'ites and some Sunni Moslems from Azerbaijan to Saudi Arabia. Yet it is Lebanon's Maronite Christian patriarch, Cardinal Nasrallah Sfeir, whose views from across the divide he mostly echoes when he says "Christians and Moslems should think together on the ways we can achieve both Islamic and Christian values, which are 80 per cent the same."

> The US and Israel have scores to settle with Hizbollah

None of this cuts much ice with the Americans and Israelis, who have scores to settle with Hizbollah and regard it as a deadly and effective part of an Iranian terror network which has to be eradicated from the Levant. The discomfiture of the Lebanese government, especially as Hizbollah's popularity surged after April's Israeli bombardment, led to a fierce polemic in May between Mr Hariri and Sheikh Nasrallah, seen at the time as an attempt by Beirut to start reining the guerrillas in. The subsequent election of a hardline government in Israel appears to take that possibility off the agenda for so long as Syria requires Hizbollah to keep up the pressure on Israel and assert Syria's regional influence.

Yet for Hizbollah, the Syrian relationship, and Iranian patronage, obscure its attempts to present itself as a Lebanese organisation, which it, in the end, is patently aspiring to be.

In this context, Hizbollah's bid for a national role in Lebanon becomes not only plausible but urgent if it is to secure and consolidate its future there.

PROFILE Banque Saradar

Working on the markets

To take over from your father as chairman of a bank at the age of 25 is not unusual in a country where you find a bank on every street corner and families own them as a matter of prestige and social standing. But Mr Mario Saradar, now 29, is determined to make his mark on the bank started by his grandfather in 1948.

Banque Saradar, the 12th largest in Lebanon in terms of deposits – but with a market share of only 3 per cent – is differentiating itself from others in the industry by helping to promote the development of capital markets.

Most banks in Lebanon focus on taking deposits and investing them in high yielding Lebanese Treasury bills. Parallel to commercial banking, Banque Saradar has developed a brokerage side which has helped attract funds from the Gulf and promote capital markets products.

"Three years ago we were lending at 12 to 15 per cent and deposits were at Libor plus ¼ so you could make a lot of money," says Mr Saradar. "But we knew these margins would fall, all you need are a few foreign banks coming on the market with big loans and the margins will drop."

In three years, the bank has brokered some $250m in direct investments, compared with total deposits today of $400m. "We think clients and products, other banks think deposits and placing deposits in T-bills," says Mr Saradar.

Mario Saradar: 'We think clients and products, not deposits'

Instead of taking the deposits and investing them in T-bills, Saradar buys T-bills, swaps on T-bills, and other debt and equity products on behalf of clients and in which it can make a market. This has helped it make a name for the bank among foreign institutional investors interested in the Lebanese market.

The bank acts as a placement agent for every equity and debt issue coming out of Beirut. But given the slow-paced development of the Lebanese markets and the scarcity of products, Mr Saradar is now developing a private banking arm to sell international debt and equity to its client base. "We want to manage 90 per cent of our clients' money, we put say 10 per cent in Lebanon then act as a broker to buy products all over," says Mr Saradar.

The lack of liquidity in the Lebanese market can even turn away clients. Mr Saradar says it sometimes takes weeks to buy for a client $2m worth of shares in one of the four companies listed on the official exchange. "It is our role to explain to companies that they should issue shares on the market," he says. "Many of the family businesses don't even report their numbers but eventually they will have no choice but to go public."

Perhaps Mr Saradar can set an example. While progressive in its service of clients, the bank is the only one among the top 20 to be in the hands of a single family. The need to recapitalise has already unleashed a wave of mergers among small Lebanese banks.

For Banque Saradar, the steep devaluation of the Lebanese pound within four years turned $10m worth of capital into a trifling $20,000. The last three years of sustained profits, however, have raised it back up to $10m. Mr Saradar says the bank needs to have a $50m capital base. "Now we have no choice but to open up our capital."

Roula Khalaf

An uncertain revival ahead

Continued from Page I

between $300m and $500m. Mr Hariri moved quickly to win international pledges of aid to ensure that the Horizon 2000 reconstruction drive stays on track. But opinions differ on the long-term effects of April on confidence in Lebanon.

"We were never selling Lebanon on the idea of peace," a senior finance ministry official says, pointing out that the economy has grown at an average 7 per cent over the past four years without peace. The Lebanese pound held steady after the April crisis; no risk premium of higher spreads was added to the eurobonds Lebanon issued in 1994, 1995 and again this May, after the bombardment; and there has been no sell-off of shares on Beirut's bourse, reopened in January after 13 years.

But the real test will be the reaction from the diaspora of around 1m Lebanese who fled the civil war. It is they who repatriate the capital needed to finance reconstruction, amounting to the bulk of last year's $6.7bn capital inflow, up from $6.5bn in 1994.

> Capital came from Shi'ite émigrés in west Africa

A big portion of this, moreover, was from Shi'ite émigrés in west Africa, fuelling a building boom in the now stricken south. Publicly the government says there has been no decline in these remittances. It emphasises that the balance of payments will not be vulnerable, because the import bill will fall if capital inflows slow down.

But a large portion of imports is for reconstruction, and the growth Lebanon badly needs to rebuild itself as a middle income economy could also slow down, perhaps to around 4 per cent this year.

"These things have happened in the past and there is a tendency to postpone or retard investment," says Mr Nasser Saidi, deputy governor of the central bank, who nevertheless adds that building Beirut into the region's main capital market will always be "a strategic objective, even if it's delayed." Mr Hariri himself acknowledges that "the economy can afford a few months of slower [capital] inflows, but if it continues for longer, then things will be different."

Slower growth would further skew the huge regional imbalances in wealth, income and infrastructure – particularly affecting the Shi'ite south and Hizbollah heartland – and could widen the sectarian divisions which led to the civil war and still beset the country.

This risk reinforces the need for Lebanon to reconstruct politically as well as physically. Yet with elections due in August, there is no sign of any movement articulating the national unity of April. Some government officials, moreover, believe Syria will insist that the elections be postponed because of the regional tensions following on Mr Netanyahu's election.

But Mr Hariri says adamantly that "the elections will take place on time."

■ **Politics:** by David Gardner

The unity of grief

The reconstruction drive has yet to reassure the Shi'ites in the poor southern region

Virtually all the total of more than 200 dead, 550 injured and half million refugees caused by Israel's 17-days air, artillery and naval bombardment in April of southern Lebanon were Shi'ite Moslems. This was the community which spawned Hizbollah, the Islamist militia fighting the self-proclaimed Israeli "security zone" in the south.

Yet the first demonstrations against the bombing were by Maronite Christians in east Beirut, the hitherto dominant community that allied with Israel during the 1975-90 Lebanese civil war, which ended not only with Israel holding 12 per cent of Lebanon's southern territory as a buffer, but the rest of the country under the creeping hegemony of Syria.

The Israeli onslaught, intended to cause a popular backlash against Hizbollah and pressure the Beirut government into closing it down, provoked instead a surge of national unity.

After the 16 years of tribal warfare between and within the country's 17 minority communities, the Lebanese are rediscovering themselves as a nation. But politically Lebanon is still unable to turn the page on the civil war, and its options are still constrained by the war's outcome.

First, Lebanon's destiny has for the past quarter century been shaped by powerful neighbours using its soil and sectarian divisions to fight out their differences. April's events, essentially a proxy confrontation between Israel and Syria, which licenses Hizbollah's attacks on the occupation, show that cycle has not yet ended.

Second, the growing national consensus at street level has not percolated up to a political class still heavily populated by sect and clan leaders and warlords, still organised along confessional divisions and incapable of articulating a national vision.

The 1989 Taif Agreement which eventually ended the civil war rebalanced power between the country's main groupings. The executive presidency, through which the Maronites had dominated Lebanon, ceded power to a Sunni Moslem prime minister, Mr Hariri, and to a Shi'ite Moslem speaker of parliament, former militia leader Nabih Berri. Instead of giving way to national reconciliation, the pre-war confessional system, skilfully manipulated by Syria, has acquired a new lease of life.

Third, Lebanon lost a huge chunk of its middle class, either because they fled abroad, or because their savings were wiped out by wartime inflation. The poor became poorer and more numerous, the rich appear to be getting much richer.

Mr Hariri's reconstruction drive, moreover, although still at an early stage, is not doing enough to reassure poorer regions like the Shi'ite south that it will change the pattern of uneven development which helped fuel sectarian war. "The imbalances that were there before the war, in terms of distribution of income and distribution of regional wealth, have increased, not diminished," says a leading Shi'ite member of the administration.

Against problems of this magnitude, the strategy of Mr Hariri, a billionaire businessman, has been to press forward with the physical reconstruction of Lebanon's shattered economy and infrastructure. The ambition is to reclaim the country's pre-war role as the world's window onto the Middle East, the region's services entrepot, and in particular, its pre-eminent capital market.

The Israeli bombardment, which deliberately targeted infrastructure, in the view of one senior government official

> Public reaction showed there is a mass market for national entente

showed that it is futile to try to rebuild Lebanon economically while ignoring its political and social divisions and geo-political constraints. "We must have a new national entente, based on reconciliation and taking together the decisions on our common future," he said.

Public reaction to the bombardment showed that there is indeed a mass market for this view. It also showed that the Lebanese are beginning to believe in the future and that they already have something to protect.

Amid the US and French diplomatic shuttling between Jerusalem and Damascus to end the April fighting, Mr Hariri skilfully exploited his wide range of international contacts – especially with French president Jacques Chirac – to ensure that Beirut too was an interlocutor in any discussion on Lebanon's future.

But since taking office in October 1992, Mr Hariri has not deployed similar skills in internal politics. He now says that the parliamentary elections due next month "can solve this problem" of national reconciliation.

Until Israel's elections on May 29, there was hope that Israel would negotiate its withdrawal from south Lebanon, and thereby loosen Syria's grip on the country. With the victory of Mr Benjamin Netanyahu, who now heads a coalition of hardline Zionists and religious fundamentalists, this hope has nearly evaporated, although senior officials in both Beirut and Jerusalem do not entirely rule it out.

But Syria, the powerbroker with 40,000 troops in Lebanon, is fully engaged in trying to forge a united Arab front against Israel, which under Mr Netanyahu says it will not restore the Golan Heights to Syrian sovereignty in exchange for peace. Syria also feels under pressure from Turkey. Turkey in February signed a military co-operation pact with Israel, and Damascus believes Ankara was behind a series of bomb attacks inside Syria in May. Under these circumstances, some government officials believe Syria will insist on postponing the elections.

Mr Hariri, who travels to Damascus almost every week, adamantly rejects this. "The elections will take place on time," he says. If they do, the outcome is far from clear. The last elections in 1992 were boycotted by the Maronites, who complained they were taking place under Syrian guns, and put them at a disadvantage against Moslem voters. They have an additional complaint now over the electoral rules, which, they say, could create an unfair division of spoils between Maronites and the Druze on Mount Lebanon.

The governments in Beirut and Damascus take Maronite disgruntlement seriously. A meeting in Paris on June 5 of three Maronite civil war leaders by June 6 had Lebanese army patrols fanned out in mountain and coast approaches to Christian east Beirut. A more serious problem, however, is the Maronite failure to produce leaders and organise their national representation, whether as a group or across confessional lines. Their most potent voice is Patriarch Nasrallah Sfeir, who would like to see a Christian-Moslem national party, and preaches national reconciliation.

So too, in a different way, does Hizbollah, which furthermore is pushing to enter government, presenting Mr Hariri with another headache. Sheikh Mohammed Hussein Fadlallah, the senior Shi'ite cleric who maintains a distance from the movement but is regarded as Hizbollah's spiritual guide, says Hizbollah's Islamic fundamentalism should only be "one element in an ideological contest" embracing all Lebanon's communities, and that "Christians and Moslems should think together on the ways we can achieve both Islamic and Christian values, which are 80 per cent the same."

Hizbollah has a formidable social and welfare network and its resistance to Israel in and since April has enhanced its prestige. It is expected to do well in any election, although the Shi'a as a whole are allocated only 26 of the 128 parliamentary seats. Mr Hariri says he could never agree a common platform with the Islamists. But government officials recognise that Hizbollah is too powerful a force to be kept outside the political mainstream for long.

PROFILE Solidere

Jewel in the reconstruction vision

The Lebanese Company for the Reconstruction of Beirut Central District, Lebanon's largest company, has in the past 12 months received its first land sales commitments for $200m, an amount officials' had expected to achieve over three years. Buyers are for the most part businessmen in the Lebanese diaspora wishing to relocate in Lebanon. The first phase of rebuilding the infrastructure of the war-ravaged historical downtown sector, including road networks, the sewerage and water systems, tunnels and electrical and communications networks is scheduled for completion in 1998 and some new roads and underpasses are already operational.

Peace or no peace in the Middle East, Solidere will soldier on, say its executives. "On the contrary, if peace is delayed, we will now have more time to prepare for it," says deputy general manager Mr Abdul Hafiz Mansour.

Yet few other projects in Lebanon are as dependent as Solidere on Lebanon's success in remoulding itself into a regional financial centre and as affected by the region's long term political prospects.

Solidere is the jewel in prime minister Rafiq Hariri's reconstruction project for Lebanon. He is the company's single largest shareholder and the architect behind the controversial 1991 law which created the company. The law effectively forced landowners and former tenants, who also under Lebanese law have claims to certain rights of ownership and occupancy, to give up these rights in return for shares in a publicly traded company. While 64 per cent of the company's shareholders held property rights in the downtown area, the rest bought the stock in a $650m public offering to Lebanese and other Arab investors in January 1994.

Solidere covers about 10 per cent of the Beirut surface area and its plans call for the development of 1.9m sq m of residential space and 1.5 sq m of office space. The company is building two marinas, one of which will house 750 boats. The development expects to house 45,000 inhabitants and another 110,000 employees and 150,000 visitors.

The company has a 25-year life and is responsible for building infrastructure, restoring buildings in the traditional souks and selling most of the land to other developers. "For a project like this, you have to have a clear idea of where the country will be in five years," says a local trader. "There is no clear vision for the medium- to long-term prospects of the country." This is partly why Solidere's shareholders are far less cheerful than its executives. After reaching $175 from its $100 issue price, the Solidere stock has languished around $110 and recently for a brief while reached a new low of just above $103.

This was at a time when the company recognised $23m out of the $200m in sales commitments as income in 1995, pushing net income up to over $32mn, well ahead of projections. The company books the total amount of the sales after signing a final sales contract and receiving only 25 per cent of the price. The rest of the $200m is expected to be recognised into income this year. Shareholders' disappointment is all the greater since many of them never chose to buy the stock in the first place.

Because distributing shares to holders of property rights in the area is entangled in court decisions and disputes among the recipients, the process has been lengthy and the company has 3m out of a total of 11.7m shares left to distribute.

Demand for Solidere stock is dampened by the fact that the company's bylaws allow only Lebanese and other Arab shareholders and these interested investors bought in the initial public offering.

Although executives will not comment on this, local bankers say the company is considering an international issue of global depositary receipts to attract international institutional buyers it hopes would stick with the stock for the long haul and help prop up the price. Some analysts say that, with total payments for compensating settlers and infrastructure contracts exceeding $500m, the company may also be in need of new cash.The GDR issue would be designed to circumvent the company's bylaws, which allow only Lebanese and Arab shareholders.

Roula Khalaf

■ **Reconstruction:** by Roula Khalaf

An exercise in damage control

About $60bn in investment will be required for the rebuilding plan up to the year 2007

When Israeli planes pounded Lebanese territory in April and deliberately targetted two power stations, the anxiety of Lebanese officials was such that they publicly exaggerated the extent of the damage to discourage further attacks and immediately rationed the supply of electricity to Beirut as proof of the devastation.

Hitting Lebanon's infrastructure just as the benefits of an ambitious reconstruction programme were beginning to be felt was a psychological blow to both government and population. Mr Rafiq Hariri, the prime minister, has staked his reputation on rebuilding a modern infrastructure system that allows the private sector

> Beirut residents had been deprived of basic services for a decade

– traditionally the driving force of the Lebanese economy – to thrive.

After having been deprived of the most basic of services for more than a decade through civil war, residents in Greater Beirut finally received 24 hours a day of uninterrupted electrical supply earlier this year. Telephone exchanges were rebuilt and restored, allowing calls to go through in a few minutes instead of hours, and new roads were springing up across the city.

After five years of rehabilitation work, both telephone networks and electrical power are now nearly at pre-war capacity, with the ongoing phases of reconstruction aiming to upgrade and expand services.

By the end of this year, nearly a million telephone lines should be at the government's disposal. Two cellular operators were licensed last year by the government and each has now signed up 50,000 subscribers and plans to increase capacity. Contracts for the expansion of electrical generating capacity through the construction of two new power plants have been signed.

Work on expanding the airport to receive up to 6m passengers is about 10 per cent complete and bids have been invited for the rehabilitation of the Beirut port.

By the time the Israelis attacked, Lebanon was moving on to a new phase of reconstruction, focusing on administrative reform and with special emphasis on social projects, the source of numerous complaints from the Lebanese population. These projects include the rehabilitation and reconstruction of hospitals and health centres throughout the country and the construction of new schools, colleges and a new university.

As it turned out, direct damage to infrastructure due to the Israeli attacks was about half the initial estimates advanced by government officials in April.

Total direct damage is estimated at no more than $200m, according to the Council for Development and Reconstruction (CDR), including $40m to repair the two power stations of which the French government has already offered to take charge.

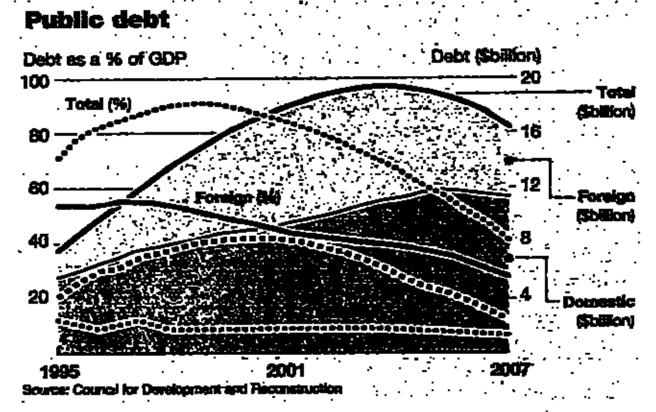
The indirect damage to reconstruction, however, could be far more significant. The political uncertainty generated by the attack as well as by new doubts about the future of the peace process following the election in Israel of right-wing Likud leader and prime minister Benjamin Netanyahu could affect capital flows into Lebanon. This raises the risk of slowing down the huge investment plans envisioned by the government for the private sector.

So as not to aggravate this potential loss, Mr Hariri is attempting to exploit the April raids in order to wrest grants and soft loans from international donors. The aim is to lower the government's planned borrowing costs and maintain high levels of public investment.

"The aggression may have slowed us down a little but it did not affect the reconstruction programme as a whole. We are at a stage where disaster makes us stronger," says Mr Nabil El Jisr, president of the CDR, the body overseeing the rebuilding programme. "We are trying to benefit from it to accelerate the reconstruction."

In 1995, Lebanon's Horizon 2000, as Mr Hariri's reconstruction programme is known, was revised and expanded to span 13 years up to 2007 and to include a public investment programme of $17.7bn (in 1995 dollars) for the building of an infrastructure conducive to private sector investment. For the plan to work as envisaged by the CDR – that is to double GDP per capita in 13 years – implies private sector investment – in addition to that from the public sector – of as much as $42bn.

Public debt



Source: Council for Development and Reconstruction

The CDR estimates that financing requirements will be principally met by foreign borrowing during the first six years – from 1995 to 2000 – and will amount to $8.7bn of total financing over the whole reconstruction period. The rest is expected to be financed by future surpluses in the government budget.

Now under considerable financial strain (the budget deficit is estimated at an optimistic 38 per cent of spending this year), the government is expected to begin recording surpluses in its budget during the last seven years of Horizon 2000.

Indeed, to relieve pressure on its finances, and because the cost of expropriating land for infrastructure has turned out far higher than planned, the government has decided to enlarge further the private sector's role in reconstruction by handing out $1.2bn worth of public projects on a build-operate-transfer basis or as concessions.

Mr Nohad Baroudi, secretary general of the CDR, says Lebanon should not have a problem obtaining the necessary foreign funding, although in the last five years, the country has received only $2.8bn in foreign grants and loans (excluding $800m raised in eurobond issues), with grants making up only $398.6 of that total.

But the CDR is hoping to lower its borrowing costs by asking for better terms from donors within the framework of the so-called consultative group.

This is a body expected to be set up by international donors to assist in Lebanon's reconstruction as part of the April 27 ceasefire agreement which put an end to the Israeli offensive. Its creation, however, had been awaiting the establishment of the monitoring group to oversee the ceasefire.

The Lebanese government has kept a lid on the documented direct costs and estimated indirect costs of the Israeli operation as it tries to figure out the best possible way of presenting the damage to donors. The government is hoping to convince donors at the consultative group to provide Lebanon with grants and soft loans instead of regular loans.

Mr Hariri has already proposed to the European Union that the consultative group should work on obtaining $5bn over five years for Lebanon, 30 per cent in grants and the rest in soft loans.

Lowering borrowing costs is all the more important when the expected slower rate of growth in GDP this year due to the Israeli attacks and the political uncertainty in the region is taken into account. This and a reduction in capital inflows will frustrate the financial impact of the reconstruction program."

A macro-economic model underlying Horizon 2000 set up by Mr Baroudi assumes that annual growth will be a little under 8 per cent a year leading to a doubling of GDP per head over 13 years – a goal that will not be met this year. The model estimates a huge rise in public indebtedness but one that Mr Baroudi considers manageable. Total foreign debt is to peak at 42 per cent of GDP in the year 2000, with total debt stock reaching 90 per cent of GDP in 1999.

Debt service as a percentage of GDP is estimated at only 10 per cent because it excludes principal payment on domestic debt, assuming that it will always be rolled over.

CURRENCIES AND MONEY

MARKETS REPORT

D-Mark rises in spite of Yeltsin health scare

By Graham Bowley

Expectations that short-term interest rates across Europe might rise soon caused the D-Mark to rally strongly on the foreign exchanges yesterday.

This was in spite of growing concerns about the apparently declining health of Russian president Boris Yeltsin, who failed to meet an appointment in Moscow with US vice-president Al Gore. Concerns about stability in Russia typically cause the D-Mark to sell-off.

The D-Mark recorded especially large gains against the European high-yielding currencies such as the Italian lira, the Swedish krona and the Spanish peseta. These currencies benefited most this year from "convergence trades" fuelled by expectations that European interest rates were moving lower.

The D-Mark gained ground against sterling. Worries that a split between the UK Treasury and the Bank of England on interest rate policy might emerge in the minutes of the June monetary meeting published tomorrow helped undermine the pound.

The French franc was unnerved by calls by President Jacques Chirac for lower French interest rates, while the Spanish peseta came under further downward pressure after the Spanish finance ministry said it would prefer a weaker currency.

Elsewhere, the dollar lost about half a pfennig against the D-Mark. This was due largely to the D-Mark's strength rather than the dollar's weakness, although weakness in US share prices exacerbated its decline.

The dollar closed in London at DM1.5217. The pound lost about one-tenth of a cent against the dollar to reach $1.5507. Against the yen, the dollar finished at Y110.325, down about one-third of a yen.

Sterling shed almost one pfennig to finish at DM2.3546. The French franc fell almost half a centime against the D-mark to close at FFr3.388. The D-mark closed at L1,013 against the Italian lira, from L1,006 at the previous close.

■ Pound in New York

Jul 15	—Latest—	— Prev. close —
£ spot	1.5505	1.5515
1 mth	1.5503	1.5512
3 mth	1.5503	1.5513
1 yr	1.5538	1.5547

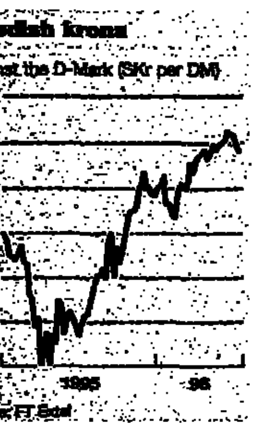
■ The European foreign exchange markets, stuck in narrow trading ranges for most of last week, came to life yesterday. The increased activity was triggered by Friday's rise in Dutch official interest rates.

The rate rise was made for Dutch-specific reasons but it nevertheless gave rise to speculation that it might signal rate increases in other European countries.

In particular, the markets began to speculate yesterday that the downward cycle in German interest rates might be nearing its end and that the next move in rates might be upwards.

Swedish krona

Against the D-Mark (SKr per DM)



Source: FT Extel

Mr Paul Meggyesi, currency analyst at Deutsche Morgan Grenfell in London, said: "The Dutch hike has helped concentrate attention on the interest rate cycle in Europe."

But Mr Jeremy Hawkins, chief economist at Bank of America in London, said: "The Dutch hike has made it less likely that Germany will cut rates again, but the Bundesbank has made it clear that even if the bottom in rates has been reached they do not want to see rates moving higher."

■ The Italian lira was one of the currencies which suffered most from the D-Mark's resurgence. A sell-off in Italian government bonds caused by growing disappointment that the Bank of Italy is failing to deliver a long-awaited cut in interest rates helped drag the currency lower.

A fall in Swedish government bond prices also hit the krona. The fall was sparked by growing speculation that the Swedish central bank may have decided not to lower interest rates any further.

■ Sterling's trade-weighted index ended the day at 86.2 per cent of its 1990 value, compared with 86.4 per cent at Friday's close.

The latest survey of UK high street activity by the British Retail Consortium came in largely as expected and reinforced the picture of a pick-up in the UK's consumer sector.

Mr Kenneth Clarke, the chancellor, defended his upbeat forecasts for the UK economy in front of MPs in the House of Commons. He said the strong acceleration in growth he predicted for the second half of this year did not pose a risk of renewed inflationary pressures.

But concerns that last month's cut in interest rate may have been opposed by Mr Eddie George, the governor of the Bank of England, weighed on the pound yesterday.

■ OTHER CURRENCIES

Jul 15	£	$
Czech Rp	42.1769 - 42.2135	27.2000 - 27.2200
Hungary	233.351 - 233.504	150.510 - 150.560
Iran	4662.70 - 4651.30	3000.00 - 3000.00
Kuwait	0.4648 - 0.4657	0.2998 - 0.3003
Poland	4.2246 - 4.2276	2.7250 - 2.7260
Russia	7945.80 - 7953.02	5125.00 - 5128.00
U.A.E.	5.6943 - 5.6995	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jul 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5886	-0.0936	820 - 751	16.6418	16.5818	16.5373	2.3	16.4624	2.6	-	-	105.0
Belgium	(BFr)	48.5044	-0.1913	810 - 277	48.8080	48.4620	48.4094	2.4	48.2184	2.4	47.4294	2.2	108.6
Denmark	(DKr)	9.0781	-0.0281	751 - 811	9.1080	9.0728	9.0643	1.8	9.044	1.5	8.9362	1.6	107.8
Finland	(FM)	7.1544	-0.0085	494 - 594	7.2390	7.1490	7.15	0.7	7.1418	0.7	-	-	84.8
France	(FFr)	7.9780	-0.0221	760 - 800	7.9867	7.9760	7.9657	1.8	7.943	1.8	7.8496	1.6	109.2
Germany	(DM)	2.3546	-0.0058	537 - 554	2.3602	2.3532	2.3502	2.3	2.3411	2.3	2.3024	2.2	108.6
Greece	(Dr)	370.598	-0.83	437 - 758	373.136	370.385	-	-	-	-	-	-	67.8
Ireland	(I£)	0.9734	-0.0006	726 - 742	0.9749	0.9723	0.9729	0.6	0.9717	0.7	0.9672	0.6	98.5
Italy	(L)	2385.08	+5.93	359 - 652	2386.97	2378.91	2390.81	-2.8	2400.46	-2.6	2452.96	-2.8	78.5
Luxembourg	(LFr)	48.5044	-0.1913	810 - 277	48.8080	48.4620	48.4094	2.4	48.2184	2.4	47.4294	2.2	108.6
Netherlands	(Fl)	2.6438	-0.0095	425 - 445	2.6509	2.6420	2.6375	2.8	2.6256	2.7	2.5778	2.5	108.6
Norway	(NKr)	10.0806	-0.0193	762 - 853	10.1003	10.0579	10.0723	1.0	10.0583	1.0	9.9716	1.1	98.8
Portugal	(Es)	242.064	-0.796	985 - 170	243.988	241.811	242.484	-2.1	243.394	-2.2	-	-	94.8
Spain	(Pta)	198.269	-0.444	234 - 345	198.940	198.225	198.549	-1.8	199.054	-1.6	200.464	-1.1	80.8
Sweden	(SKr)	10.4453	+0.0032	369 - 536	10.4718	10.3838	10.4466	0.0	10.4497	0.0	10.4436	0.0	88.9
Switzerland	(SFr)	1.9442	-0.0101	433 - 451	1.9542	1.9432	1.9392	3.1	1.9284	3.3	1.8802	3.3	110.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	88.2
Ecu	-	1.2458	-0.0021	452 - 463	1.2481	1.2431	1.2445	1.3	1.2415	1.4	1.2282	1.4	-
SDR†	-	1.075700	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5485	-0.0017	481 - 489	1.5510	1.5480	-	-	-	-	-	-	-
Brazil	(R$)	1.5600	-0.0004	595 - 605	1.5607	1.5572	-	-	-	-	-	-	-
Canada	(C$)	2.1243	-0.002	238 - 250	2.1280	2.1200	2.1236	0.4	2.1199	0.8	2.1119	0.6	84.2
Mexico	(New Peso)	11.8540	-0.0017	482 - 597	11.8589	10.8474	-	-	-	-	-	-	-
USA	($)	1.5507	-0.0016	504 - 509	1.5515	1.5493	1.5503	0.3	1.5509	0.0	1.5542	-0.2	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.9511	+0.004	502 - 520	1.9624	1.9459	1.9537	-1.6	1.9587	-1.6	1.984	-1.7	94.3
Hong Kong	(HK$)	12.0005	-0.0136	978 - 032	12.0075	11.9916	11.9924	0.8	11.9808	0.7	11.981	0.3	-
India	(Rs)	55.1257	+0.1742	842 - 671	55.4070	54.8730	-	-	-	-	-	-	-
Israel	(Shk)	4.8995	-0.0158	382 - 427	4.9230	4.9122	-	-	-	-	-	-	-
Japan	(Y)	171.076	-0.702	039 - 142	171.950	171.000	170.351	5.1	168.881	5.2	162.446	5.0	132.4
Malaysia	(M$)	3.8642	-0.0049	628 - 656	3.8683	3.8606	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2619	+0.0045	607 - 631	2.2636	2.2601	2.2669	-2.7	2.2763	-2.6	2.3102	-2.1	108.1
Philippines	(Peso)	40.6098	-0.0432	585 - 401	40.6872	40.5572	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8157	-0.0064	146 - 168	5.8187	5.8108	-	-	-	-	-	-	-
Singapore	(S$)	2.1996	-0.0054	985 - 007	2.2035	2.1988	-	-	-	-	-	-	-
South Africa	(R)	6.8733	+0.0199	683 - 782	6.8927	6.8479	-	-	-	-	-	-	-
South Korea	(Won)	1261.38	-2.11	079 - 197	1264.06	1260.68	-	-	-	-	-	-	-
Taiwan	(T$)	42.8367	+0.0638	910 - 824	42.8933	42.7281	-	-	-	-	-	-	-
Thailand	(Bt)	39.3943	-0.0652	802 - 084	39.4240	39.3750	-	-	-	-	-	-	-

† Rates for Jul 12. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.6949	-0.0295	924 - 974	10.7400	10.6810	10.6654	2.2	10.6234	2.3	10.4399	2.3	104.8
Belgium	(BFr)	31.2800	-0.09	700 - 900	31.5740	31.2600	31.225	2.1	31.11	2.2	30.57	2.3	108.2
Denmark	(DKr)	5.8544	-0.0106	534 - 554	5.8780	5.8530	5.8469	1.5	5.8299	1.7	5.7609	1.6	106.9
Finland	(FM)	4.6136	-0.0093	113 - 168	4.6624	4.6106	4.6073	1.7	4.5953	1.6	4.5498	1.4	83.1
France	(FFr)	5.1450	-0.0097	445 - 454	5.1621	5.1435	5.138	1.6	5.1238	1.6	5.058	1.7	108.6
Germany	(DM)	1.5184	-0.0042	181 - 187	1.5260	1.5180	1.5159	2.0	1.5101	2.2	1.4819	2.4	107.9
Greece	(Dr)	238.995	-0.345	930 - 060	240.500	238.000	240.67	-8.4	244.02	-8.4	257.995	-7.9	67.8
Ireland	(I£)	1.5930	-0.0006	920 - 940	1.5955	1.5900	1.5936	-0.4	1.5944	-0.4	1.5959	0.4	-
Italy	(L)	1538.10	+6.45	740 - 880	1539.75	1532.25	1542.85	-3.7	1551	-3.4	1573.75	-2.3	78.4
Luxembourg	(LFr)	31.2800	-0.09	700 - 900	31.5740	31.2600	31.257	2.0	31.1205	2.0	30.64	2.0	108.2
Netherlands	(Fl)	1.7049	-0.0044	044 - 052	1.7120	1.7040	1.7015	2.4	1.6944	2.5	1.6626	2.5	108.0
Norway	(NKr)	6.5010	-0.0056	981 - 039	6.5205	6.4867	6.4981	0.5	6.4925	0.5	6.456	0.7	98.0
Portugal	(Es)	156.105	-0.34	080 - 130	157.200	156.010	156.42	-2.4	157.01	-2.3	159.155	-2.0	94.8
Spain	(Pta)	127.875	-0.15	850 - 900	128.340	127.850	128.125	-2.3	128.555	-2.1	130.085	-1.7	80.3
Sweden	(SKr)	6.7361	+0.0286	317 - 405	6.7500	6.6998	6.7472	-2.0	6.7648	-1.7	6.8085	-1.0	88.9
Switzerland	(SFr)	1.2538	-0.0052	534 - 542	1.2613	1.2530	1.2503	3.4	1.2428	3.5	1.2093	3.5	109.7
UK	(£)	1.5507	-0.0016	504 - 509	1.5515	1.5493	1.5503	0.3	1.5509	0.0	1.5542	-0.2	86.0
Ecu	-	1.2448	-0.0008	444 - 451	1.2468	1.2417	1.2456	-0.7	1.2472	-0.8	1.258	-0.9	-
SDR†	-	0.69270	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	995 - 997	0.9999	0.9990	-	-	-	-	-	-	-
Brazil	(R$)	1.0061	+0.0009	059 - 062	1.0065	1.0050	-	-	-	-	-	-	-
Canada	(C$)	1.3700	+0.0002	697 - 702	1.3705	1.3662	1.3699	0.1	1.3701	0.0	1.3729	-0.2	83.6
Mexico	(New Peso)	7.6445	+0.007	420 - 470	7.6470	7.6340	7.808	-25.4	7.961	-18.1	8.7645	-27.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.4
Pacific/Middle East/Africa													
Australia	(A$)	1.2582	+0.0044	578 - 587	1.2598	1.2534	1.2602	-1.9	1.2637	-1.7	1.2824	-1.9	98.2
Hong Kong	(HK$)	7.7390	-0.0006	385 - 395	7.7405	7.7380	7.7397	-0.1	7.7415	-0.1	7.7885	-0.4	-
India	(Rs)	35.5500	+0.15	000 - 000	35.7600	35.1900	35.7	-5.1	36.005	-5.1	37.475	-5.4	-
Israel	(Shk)	3.1654	-0.0066	638 - 670	3.1961	3.1673	-	-	-	-	-	-	-
Japan	(Y)	110.325	-0.335	300 - 350	110.870	110.290	109.88	4.8	108.98	4.9	105.24	4.6	132.4
Malaysia	(M$)	2.4920	-0.0005	915 - 925	2.4940	2.4910	2.4929	-0.4	2.499	-1.1	2.5225	-1.2	-
New Zealand	(NZ$)	1.4586	+0.0045	582 - 590	1.4596	1.4531	1.4617	-2.6	1.4675	-2.4	1.4821	-2.3	-
Philippines	(Peso)	26.1850	-	600 - 100	26.2150	26.1600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0002	504 - 506	3.7510	3.7503	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4185	-0.002	180 - 190	1.4222	1.4110	1.415	3.0	1.409	2.7	1.3835	2.5	-
South Africa	(R)	4.4325	+0.0175	300 - 350	4.4455	4.41009	4.48	-12.9	4.57	-12.4	4.9075	-10.7	-
South Korea	(Won)	813.450	-0.5	200 - 700	815.300	813.100	-	-	-	-	-	-	-
Taiwan	(T$)	27.5250	+0.0705	000 - 500	27.6590	27.5490	27.63	-0.2	27.635	-0.1	-	-	-
Thailand	(Bt)	25.4050	-0.015	000 - 100	25.4460	25.4000	25.5038	-4.7	25.7075	-4.8	26.59	-4.7	-

† SDR rate per $ for Jul 12. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 12: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

July 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅜	3⅜	3⅜	3⅝	7.00	2.50	-
week ago	3⅜	3⅜	3⅜	3½	3⅝	7.00	2.50	-
France	3⅞	3⅝	3¾	3⅞	4⅛	3.55	-	5.60
week ago	3⅞	3⅝	3⅞	4	4¼	3.60	-	5.60
Germany	3⅜	3⅜	3⅜	3⅜	3⅝	4.50	2.50	3.30
week ago	3⅜	3⅜	3⅜	3⅜	3¾	4.50	2.50	3.30
Ireland	5¾	6¾	5¾	5⅞	5⅞	-	-	6.25
week ago	5¾	5¾	5⅞	5⅞	5⅞	-	-	6.25
Italy	9¼	9⅛	8⅞	8⅝	8¾	-	9.00	9.30
week ago	9⅛	9⅛	8⅝	8½	8⅝	-	9.00	9.30
Netherlands	3⅛	3	3⅛	3¼	3⅜	-	3.00	3.30
week ago	2⅞	3	2⅞	3⅛	3⅛	-	3.00	3.30
Switzerland	2	2⅜	2⅜	2⅜	2⅝	5.00	1.50	-
week ago	2⅛	2⅜	2¼	2⅜	2⅞	5.00	1.50	-
US	5⅜	5½	5⅝	5¾	6⅛	-	5.00	-
week ago	5⅜	5½	5⅝	5⅞	6¼	-	5.00	-
Japan	⅜	½	½	⅝	1⅛	-	0.50	-
week ago	⅜	½	½	⅝	1⅛	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅝	5⅞	6⅛	-	-	-
week ago	-	5⅝	5⅝	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.15	5.34	5.50	5.82	-	-	-
week ago	-	5.15	5.35	5.53	5.83	-	-	-
ECU Linked Ds	-	4⅜	4⅛	4⅜	4⅝	-	-	-
week ago	-	4⅝	4⅜	4⅛	4⅜	-	-	-
SDR Linked Ds	-	3⅜	3¾	3⅜	3⅝	-	-	-
week ago	-	3⅜	3⅜	3⅜	3⅜	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3⅛	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜	3⅝ - 3½	3⅞ - 3¾
Danish Krone	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	4⅛ - 4	4⅜ - 4¼
D-Mark	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜	3¾ - 3⅝
Dutch Guilder	3⅛ - 3	3⅛ - 3	3⅛ - 3	3¼ - 3⅛	3⅜ - 3¼	3⅝ - 3½
French Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4¼ - 4⅛
Portuguese Esc.	7⅞ - 7⅝	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7¾
Spanish Peseta	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼
Sterling	5⅞ - 5¾	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5¾ - 5⅝	6 - 5⅞
Swiss Franc	2½ - 2¼	2⅛ - 2	2½ - 2⅜	2⅝ - 2½	2¾ - 2⅝	2⅞ - 2¾
Can. Dollar	4¾ - 4⅝	4¾ - 4⅝	4¾ - 4⅝	4⅞ - 4¾	5⅛ - 4⅞	5⅜ - 5¼
US Dollar	5⅜ - 5¼	5¼ - 5	5⅜ - 5¼	5⅝ - 5½	5⅞ - 5¾	6¼ - 6
Italian Lira	9⅜ - 9⅛	9¼ - 9⅛	9⅛ - 9	8⅞ - 8¾	8⅝ - 8½	8½ - 8¼
Yen	⅜ - ¼	½ - ⅜	½ - ⅜	⅝ - ½	⅞ - ¾	1⅛ - 1
Asian $Sing	3⅜ - 3¼	3⅛ - 3	3¼ - 3⅛	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.03	96.00	-0.04	96.08	95.99	9,172	72,149
Dec	95.87	95.82	-0.05	95.88	95.82	4,368	45,872
Mar	95.62	95.58	-0.04	95.64	95.57	3,319	28,020

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.59	96.59	-0.01	96.59	96.56	11750	190354
Dec	96.42	96.43	+0.01	96.43	96.39	19149	222430
Mar	96.11	96.13	-	96.13	96.09	15738	183284
Jun	95.78	95.77	-	95.77	95.72	5231	112046

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.60	91.53	-0.10	91.62	91.52	14750	57579
Dec	92.09	91.98	-0.13	92.09	91.95	10085	35646
Mar	92.25	92.16	-0.12	92.25	92.16	3781	22902
Jun	92.23	92.18	-0.14	92.26	92.17	1274	12367

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.29	97.26	-0.03	97.30	97.23	2708	35549
Dec	97.10	97.07	-0.03	97.12	97.04	1221	23856
Mar	96.90	96.86	-0.02	96.90	96.83	561	9387
Jun	96.63	96.61	-0.02	96.63	96.59	690	1897

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.03	99.02	-0.14	99.03	99.02	130	n/a
Dec	98.66	98.65	-0.14	98.66	98.65	1275	n/a
Mar		98.34	-0.13			0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.53	95.52	-0.04	95.55	95.52	1015	7829
Dec	95.43	95.42	-0.04	95.44	95.42	233	5344
Mar	95.22	95.21	-0.03	95.22	95.21	222	3161
Jun	94.90	94.92	-0.03	94.92	94.90	41	2316

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	54.79	48.15	14.21	5.872	14393	15.98	60.83	1461	1197	63.07	11.73	6.035	12.82	9.360	1033	7.520
Denmark	(DKr)	18.25	10	8.788	2.594	1.072	2627	2.913	11.10	266.7	218.4	11.51	2.141	1.102	2.340	1.709	188.5	1.373
France	(FFr)	20.77	11.38	10	2.952	1.220	2989	3.314	12.63	303.5	248.6	13.10	2.437	1.253	2.662	1.944	214.5	1.562
Germany	(DM)	7.036	3.855	3.388	1	0.413	1013	1.123	4.280	102.8	84.20	4.437	0.825	0.425	0.902	0.659	72.65	0.529
Ireland	(I£)	17.03	9.330	8.199	2.420	1	2451	2.717	10.36	248.6	203.8	10.74	1.996	1.028	2.183	1.594	175.8	1.281
Italy	(L)	0.695	0.381	0.335	0.099	0.041	100.	0.111	0.423	10.15	8.314	0.438	0.082	0.042	0.089	0.065	7.174	0.052
Netherlands	(Fl)	6.267	3.433	3.017	0.891	0.368	902.0	1	3.812	91.57	75.00	3.952	0.735	0.378	0.803	0.587	64.71	0.471
Norway	(NKr)	16.44	9.006	7.915	2.336	0.965	2366	2.623	10	240.2	196.7	10.37	1.929	0.992	2.107	1.539	169.7	1.236
Portugal	(Es)	6.844	3.750	3.295	0.973	0.402	985.1	1.092	4.164	100.	81.91	4.316	0.803	0.413	0.877	0.641	70.67	0.515
Spain	(Pta)	8.356	4.578	4.023	1.188	0.491	1203	1.333	5.083	122.1	100.	5.270	0.980	0.504	1.071	0.782	86.28	0.628
Sweden	(SKr)	15.86	8.687	7.634	2.254	0.931	2282	2.530	9.646	231.7	189.8	10	1.860	0.957	2.033	1.484	163.7	1.192
Switzerland	(SFr)	8.524	4.670	4.104	1.211	0.501	1227	1.360	5.185	124.5	102.0	5.376	1	0.514	1.093	0.798	88.01	0.641
UK	(£)	16.57	9.076	7.978	2.355	0.973	2385	2.644	10.08	242.1	198.3	10.45	1.944	1	2.124	1.551	171.1	1.246
Canada	(C$)	7.801	4.274	3.758	1.109	0.458	1123	1.245	4.746	114.0	93.36	4.920	0.915	0.471	1	0.730	80.56	0.587
US	($)	10.68	5.853	5.144	1.518	0.627	1538	1.705	6.499	156.1	127.9	6.738	1.253	0.645	1.369	1	110.3	0.803
Japan	(Y)	9.684	5.306	4.663	1.376	0.569	1394	1.545	5.891	141.5	115.9	6.106	1.136	0.584	1.241	0.906	100.	0.728
Ecu		13.30	7.288	6.403	1.890	0.781	1914	2.122	8.090	194.3	159.1	8.387	1.560	0.803	1.705	1.245	137.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6592	0.6604	+0.0015	0.6604	0.6577	17,990	58,704
Dec	0.6625	0.6643	+0.0014	0.6643	0.6625	6	2,253
Mar	-	0.6682	+0.0010	-	-	23	311

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7972	0.8006	+0.0025	0.8006	0.7972	14,019	35,291
Dec	-	0.8060	+0.0019	0.8060	0.8035	73	1,347
Mar	-	0.8106	-	-	-	37	95

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.9116	0.9131	+0.0030	0.9136	0.9107	17,366	80,350
Dec	0.9242	0.9245	+0.0027	0.9250	0.9242	165	3,776
Mar	-	0.9347	+0.0012	0.9347	-	13	141

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5504	1.5508	-0.0002	1.5510	1.5490	3,836	57,962
Dec	1.5490	1.5510	-0.0014	1.5510	1.5490	4	1,089
Mar	-	1.5530	-0.0014	-	1.5520	-	6

UK INTEREST RATES

LONDON MONEY RATES

Jul 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5½	5⅞ - 5¾	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	6⅛ - 5⅞
Sterling CDs	-	-	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5⅞
Treasury Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅝	-	-
Bank Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅝	5⅞ - 5⅝	-
Local authority deps.	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	6 - 5⅞
Discount Market deps	6 - 5½	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Jul 12, 5.4913pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 28, 1996. Agreed rates for period Jul 24, 1996 to Aug 25, 1996, Schemes II & III 7.20pc. Reference rate for period Jun 1, 1996 to Jun 28, 1996, Schemes IV & V 5.933pc. Finance House Base Rate 6pc from Jul 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.29	94.29	-	94.30	94.28	7259	86769
Dec	94.16	94.19	-0.01	94.20	94.17	9156	92883
Mar	93.89	93.89	-0.02	93.89	93.87	3231	62777
Jun	93.47	93.46	-0.03	93.47	93.44	2668	43944
Sep	93.09	93.02	-0.03	93.03	93.02	1690	30256

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9425	0.11	0.16	0.15	0.07	0.22	0.51
9450	0.02	0.07	0.08	0.23	0.38	0.69
9475	0.01	0.02	0.04	0.47	0.58	0.90

Est. vol. total, Calls 370 Puts 220. Previous day's open int., Calls 123776 Puts 104660

EMS EUROPEAN CURRENCY UNIT RATES

Jul 15	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.185	+0.149	-0.80	2.09	6
Ireland	0.792214	0.789326	-0.000939	-0.36	1.64	2
Netherlands	2.15214	2.14913	-0.00012	-0.14	1.41	1
Belgium	39.3960	39.4326	-0.0102	0.09	1.18	-1
Germany	1.91007	1.91447	+0.00007	0.23	1.04	-2
Austria	13.4383	13.4717	+0.0002	0.25	1.02	-2
Portugal	195.792	196.774	+0.039	0.50	0.77	-3
France	6.40608	6.48144	+0.00093	1.18	0.09	-10
Denmark	7.28580	7.37838	+0.00351	1.27	0.00	-9
NON ERM MEMBERS						
Greece	292.867	301.027	+0.044	2.79	-1.47	-
Italy	2106.15	1931.24	+1.82	-8.30	10.44	-
UK	0.786652	0.810565	-0.000967	3.04	-1.72	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.520	3.02	3.11	3.34	0.03	0.06	0.30
1.530	2.07	2.31	2.55	0.03	0.21	0.53
1.540	1.07	1.57	1.94	0.03	0.47	0.86
1.550	0.14	0.97	1.37	0.02	0.85	1.30
1.560	0.03	0.54	0.93	0.76	1.43	1.85

Previous day's vol., Calls 12,883 Puts 7,411. Prev. day's open int., Calls 165,046 Puts 134,584

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.13	94.12	-0.02	94.13	94.11	70,321	405,992
Dec	93.87	93.82	-0.04	93.87	93.80	145,909	438,641
Mar	93.69	93.65	-0.05	93.69	93.62	140,772	294,403

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.64	94.65	-	94.65	94.63	429	7,397
Dec	94.44	94.44	-0.04	94.45	94.44	155	1,499
Mar	-	94.29	-0.02	-	94.32	44	187

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9650	0.07	0.12	0.14	0.13	0	0.03	0.05	0.20
9675	0	0.02	0.03	0.05	0.18	0.18	0.19	0.37
9700	0	0	0	0.01	0.43	0.41	0.41	0.58

Est. vol. total, Calls 4066 Puts 1403. Previous day's open int., Calls 288993 Puts 304562

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9730	0.05	0.07	0.07	0.29	0.50	0.71
9775	0.01	0.03	0.03	0.50	0.71	0.92

Est. vol. total, Calls 0 Puts 18. Previous day's open int., Calls 9190 Puts 4934

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9150	0.23	0.64	0.88	0.20	0.16	0.22
9175	0.12	0.47	0.71	0.34	0.24	0.30
9200	0.06	0.38	0.55	0.53	0.35	0.39

Est. vol. total, Calls 4476 Puts 800. Previous day's open int., Calls 45026 Puts 25607

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs.	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	5.75	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Crédit Lyonnais	5.75	• Mount Credit Corp	6.00		
Cyprus Popular Bank	5.75	NatWestminster	5.75		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association
• In administration

COMMODITIES AND AGRICULTURE

Canadians in $2.5bn Peruvian copper plan

By Sally Bowen in Lima

The real, if unofficial, second attempt to privatise Peru's state mining and refining giant Centromin got off the ground on Friday when a Canadian consortium made an unexpectedly high bid for the huge Antamina copper deposit.

Formed by Inmet Mining and Rio Algom, both based in Toronto, the consortium anticipates investing $2.5bn to develop the deposit over the next five years. If completed, this would be far and away the largest single mining investment ever made in Peru.

The Inmet/Rio Algom offer – which includes a cash payment of $20m and the commitment to spend at least $13.5m in feasibility studies over the next two years – beat rival bids from Noranda, also of Canada, and RTZ International. Both of these offered the minimum $17.5m cash demanded. Noranda offered an eventual investment commitment of $1.9bn and RTZ $900m.

Inmet and Rio Algom were particularly keen to get a foothold in Peru. Rio Algom had bid unsuccessfully for the rich Tintaya copper deposit, eventually won by Magma, in October 1994. Inmet is thought to be anxious to boost its reserves.

Officially, Antamina has 129m tonnes of proven and probable reserves averaging 1.6 per cent copper and 1.3 per cent zinc, with some 18g of silver a tonne. Potential reserves are estimated at 913m tonnes. Inmet/Rio Algom executives believe these figures, based on feasibility studies carried out over the years by the former Cerro de Pasco Corporation, by Mineroperu and by Geomin of Romania, underestimate the deposit's worth.

Located in the north-central department of Ancash on the eastern side of the Andes mountain chain, development of Antamina will involve substantial investment in road and energy infrastructure.

Inmet/Rio Algom executives said they had spent over $1m on serious studies of the deposit over the past 18 months. They have five drilling crews "ready to go" and expect to lay out some $30m before their two-year option on Antamina expires.

Centromin's privatisation continued yesterday with the formal presentation of bids for Quicay, a little-studied 7,400ha disseminated gold deposit believed to contain at least 1m troy ounces. Reserves average some 1.84g of gold a tonne.

The prospect aroused enormous investor interest. Thirteen companies – including Barrick, Placer Dome, Inmet, Cambior, Echo Bay, Newmont/Buenaventura and two Mexican mining groups – presented technical proposals to the privatisation committee. Financial offers will be opened on Friday.

Quicay is to be followed in late August by the privatisation of Yauricocha, the first of Centromin's seven production units to be auctioned. Yauricocha, a polymetallic deposit, at present produces 1,340 tonnes a day and has 2.8m tonnes of proven and probable reserves.

A first attempt to dispose of the unwieldy state giant failed in May 1994 when it was offered as a single unit with a base price of $280m. Potential bidders were put off primarily by Centromin's huge social and environmental liabilities. The strategy of splitting the complex for sale is expected to prove more successful.

RTZ-CRA changes tack in Queensland zinc mine saga

By Nikki Tait in Sydney

The long saga of RTZ-CRA's efforts to develop a A$1.1bn (US$877bn) zinc mine in northern Queensland took another twist last night, with the Anglo-Australian mining group saying that it was no longer wanted special legislation from Australian state and federal governments to give it secure land title, and that it was also stopping all engineering work on the project.

The Century project – which is potentially the world's largest zinc mine – has run into opposition from some local aboriginal groups, who have a native title claim over the mine site and surrounding areas. RTZ-CRA has been attempting to win agreement on compensation package, but to date the indigenous community's views on the mine project have remained very divided.

Earlier this month, the mining company had claimed that there was evidence of enough support among local aboriginal groups to justify pushing ahead with the development – with both the Queensland state government and the federal government prepared to consider legislating to give the mining company secure title if necessary.

Yesterday, however, RTZ-CRA shifted to a much more conciliatory stance, acknowledging that request for "project-specific" legislation had provoked a storm of controversy. In particular, RTZ-CRA admitted that such a move had "been perceived by some to be an attack upon the right to negotiate process of the Native Title Act".

"This was not RTZ-CRA's wish," said Mr Leigh Clifford, CRA's managing director. "The group continues to support the central tenets of the Native Title Act".

Under the 1993 Native Title Act, once a claim for native title is registered a fairly lengthy formal negotiation period is triggered. However, at the end of this, claimants do not have any veto rights, and an arbitrated solution can be sought. Part of the problem at Century has been that RTZ-CRA's original discussions with the Waanyi people had predated the act and – when their claim was unexpectedly registered – it continued to conduct negotiations outside these proscribed processes.

Last night, the mining giant said that it had held discussions with senior aboriginal leaders and decided that further negotiations should be conducted under the act's provisions. It admitted that this might make it difficult to develop the project in the time-frame required to meet the needs of Pasminco, the Australian zinc producer, which needs to source concentrates from Century by the late-1990s, but said it was hopeful of gaining fairly quick approvals.

The mining group's change of tack also came in the wake of a fairly forceful plea from Ms Lois O'Donoghue, chairperson of the Aboriginal and Torres Strait Islander Commission, urging all parties to follow the Native Title Act processes. "ATSIC believes the existing legislation provides ample scope for resolving the dispute within an established time-frame," she said.

Nevertheless, the "right to negotiate" process is likely to take months to work through. Accordingly, RTZ-CRA is redeploying engineering staff at the potential mine site.

It stressed, however, that this was a "scale-down", rather than a "mothballing" of the project.

New sugar price indicator planned as market defies forecasters

By Alison Maitland

London experts are working on a new sugar price indicator in response to the market's defiance of analysts' forecasts that it would fall sharply in late 1995 or early 1996. The International Sugar Organisation is to develop an indicator based on both spot and futures prices.

Australia's Queensland Sugar Corporation said analysts had "serious egg on their faces" after forecasting that large crops from Cuba, Thailand, Australia and Brazil would cause a steep downturn.

The ISO, in its latest market report, said it had predicted downward pressure on prices, though not a serious price slump, and was "closely inspecting its face for egg".

Its daily spot raw sugar price averaged 12.17 cents a pound last month, up 7 per cent on May.

Market sentiment was unaffected by bearish news including the potential export of 5.2m tonnes of Brazilian sugar in 1996-97, record sowings in Poland and continued forecasts of a significant sugar surplus in 1995-96.

Defending its own forecasts, the ISO said prices had fallen since it began predicting a surplus a year ago. Remote futures contracts were trading nearer to 10 cents a pound, "showing the market *is* responding to the impending surplus".

"It may be that spot prices are no longer a good indicator of the general situation," said the ISO. Spot prices refer to a particular grade of sugar, which may be in short supply, whereas other lower grades are often sold at a big discount.

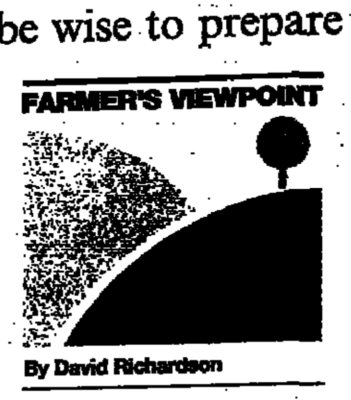
The organisation pointed to the US Department of Agriculture's first estimate for 1996-97 of output of 120m tonnes, compared with current consumption of 117m tonnes.

"We can only repeat our view that the world sugar market is entering a period of surplus, just experienced in 1991-92, when prices fell to 9 cents a pound," it concluded.

UK agricultural cycle may be past its peak

Farmers would be wise to prepare for income cuts

FARMER'S VIEWPOINT



By David Richardson

The UK minister of agriculture, Mr Douglas Hogg, last week went as far as politicians can usually be expected to go to warn farmers that the good times may be coming to an end. At the annual pre-harvest lunch of the Home Grown Cereals Authority he said: "It might be unwise to assume that the high level of grain prices experienced over the last 12 months will prove permanent".

It was just the latest of a number of signs and portents indicating that 1995, which was a very good year for most UK arable farmers in particular, was the peak from which fortunes may start to slide. Mr Hogg cited America's Federal Agricultural Improvement and Reform Act, known colloquially as the Freedom to Farm Act, as one of the influential factors. The act de-couples US farm support from production and virtually abolishes production controls.

It was likely, Mr Hogg said, that it would lead to "changes in the approach the US administration adopts to the next round of agricultural liberalisation negotiations". That in turn meant that unless the European Community made "some radical changes in its own cereals support arrangements before 1999", it would find itself "much more exposed in the next Round than the last one when the EU and the US shared a number of common interests." The minister concluded that "external pressures for substantial reform of the CAP are now very strong".

There are also strengthening internal pressures for change. One is the probability of EU arable area payments being reduced to help pay BSE ("mad cow disease") compensation. These payments were set at levels that assumed feed wheat prices would fall to £90 a tonne or lower. Instead a world shortage of grain forced values up and arable farmers have benefited from market prices often £20 to £30 a tonne above that predicted as well as substantial area aid. This, farmers are being warned, cannot continue. EU payments will be reduced and recent market developments suggest that this may coincide with lower sale prices.

Milk- and beef-producing farms, of course, have continuing, severe problems with BSE. While the UK slaughter and disposal policy for specific animals deemed to be at greatest risk of infection has now begun to operate after a very slow start, the compensation offered to farmers will fall far short of the replacement cost. Furthermore that compensation will not cover loss of income suffered through interruption of milk production or because of the low prices achieved for beef animals which are judged safe to eat. These problems will not be resolved for many months and perhaps a few years.

Another factor eroding profits is the rising cost of basic farm inputs such as machinery, fertilisers and sprays. Many of these necessities are imported, and while the devaluation of sterling in 1992 raised the value of EU payments and guarantees and boosted UK farm incomes, when it is later necessary to purchase goods from abroad with devalued currency it is very expensive. So, almost four years on from that event, while the general cost of living index is increasing at well under 3 per cent, the estimated cost of agricultural inputs increased last year by 8 per cent to 10 per cent. Some, such as fertilisers, went up by far more than that.

Perhaps the biggest increases in costs now being suffered by some farmers are self-inflicted. These result from inflated prices being paid for both the purchase of land and renting on new short term Farm Business Tenancies. The inevitability of a fall in profitability from recent highs have been pretty obvious to all in the industry. Even some land agents have been warning clients not to expect high returns to last for ever. But purchase and rent levels bid by some farmers in the last few months suggest that they chose to ignore this advice.

According to the Royal Institute of Chartered Surveyors farmland prices increased by 9 per cent in the first quarter of 1996, in comparison with the last quarter of 1995. Anecdotal evidence suggests it is still rising at a similar rate and that rents for new tenancies have experienced the same sort of manic rise. There are few more pessimistic people than farmers when they are reviewing their harvest prospects or their market prices; but few are more optimistic when they are bidding for land.

As always, however, there are exceptions to the general trend of lowering incomes. The pig business is booming at present, partly as a result of BSE and consumers' flight from beef to pork, and partly because there are too few pigs to satisfy the demand either in the UK or in Europe. It will not continue for long, of course – with pigs it never does. But it is OK at the moment and I am moderately happy (it never does to be more than moderately happy) with my involvement with them.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1422-3	1459-60
Previous	1470-2	1509-9.5
High/low	1421	1470/1453
AM Official	1419.5-20.0	1458-8.5
Kerb close		1458-9
Open int.	245,345	
Total daily turnover	114,605	

[illegible]

Precious Metals continued

[illegible]

ENERGY

[illegible]

GRAINS AND OIL SEEDS

[illegible]

SOFTS

[illegible]

MEAT AND LIVESTOCK

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

[illegible]

FUTURES DATA
All futures data supplied by CMS.

Tea
The Tea Brokers Association reports. [illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

■ CRB Futures (Base: 1967=100)

■ GSCI Spot (Base: 1970=100)

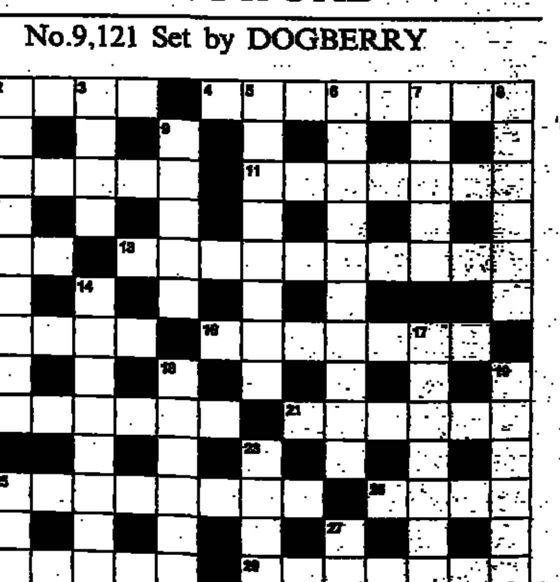
[illegible]

JOTTER PAD

FT BOOKSHOP

CROSSWORD

No.9,121 Set by DOGBERRY



ACROSS

1 Grub acquired by periodical (6)
4 Unfinished crudities possibly promoting water (8)
10 Second-rate cataloguer's swelling (7)
11 Satan's pet keeps time (7)
12 Plenty of chances to win (4)
13 It's very hard for a mother insect in Spain (10)
15 Find love in voyages of examination (6)
16 Design is cross-cut (7)
20 Getting back pound on snake's inner organ (7)
21 Shellfish to ruffle the railway (6)
24 Lines Ibsen composed without feeling (10)
26 Twist rumour (4)
28 Relating to heavenly body – one containing length (7)
29 Spread consumed at seaside town (7)
30 Turned odd, being walled round, and failed to enunciate (8)
31 Beginning of exodus in scripture language (6)

DOWN

1 Dick, having got one settled in, means to move (8)
2 Cook securing first thousand where grinding's done (5-4)
3 Hot porridge ingredient previously elicited explosive (4)
5 Man City 1 – surprising outcome of close match? (8)
6 Rake without hair adopting square style of building (10)
7 In France, you and I keep dry – all together now! (5)
8 Vehicle allowed up by commercial alliance (6)
9 The sin of many big cats (5)
14 Guarantee of excellence to take note of in coloured design (8,4)
17 Died for the nation, keeping in and refusing to compromise (9)
18 Creator of half egg? (8)
19 Move on, getting left in the club (8)
22 Supple bits of lichen and similar stuff coming up (6)
23 Tread heavily on some grass (5)
25 Medical sample of calumny (5)
27 Small sibling I interrupted with verve (4)

Solution to Saturday's prize puzzle on Saturday July 27.
Solution to yesterday's prize puzzle on Monday July 29.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Lloyds Intl Money Market Fund Ltd

GUERNSEY (REGULATED)(**)

Rothschild Asset Mngmt - Contd.

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

Morgan Grenfell Investment Funds Ltd

Lazard Brothers Investment Funds Ltd

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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	Selling Price	Buying Price	+ or -	Yield Gross
Perpetual UT Mngrs (Jersey) Ltd				
Offshore Am Gwth Fd	$10.8545	11.8414	—	-
Offshore Emerging Cos	$7.4384	7.9886	—	-
Offshore Far East Gwth Fd	$5.0850	5.4048	—	-
Offshore Intl Gwth Fd	$6.0031	6.3795	—	-
Offshore Japanese Gwth Fd	$1.3057	1.3878	—	-
Offshore UK Growth Fd	$3.6990	3.9310	—	-
Offshore Asia Smaller Mkts	$1.7833	1.8952	—	-
Offshore Latin Amer Growth	$1.0873	1.1661	—	-
Offshore European Gwth Fd	$2.5214	2.6795	—	-
Offshore Global Bond	$0.9525	0.9922	—	-
Offshore Global Bond Acc	$1.1280	1.1750	—	-
The Portugal Fund Limited				
Lloyds Bank International (Jersey) Limited				
NAV Jul 5		$7.10	—	-
Royal Bk of Scotland Fd Mngrs (Jersey) Ltd				
Ivory Growth Fund	£22.35	23.59xd	—	1.14
Lowes Aggressive Portfolio	£10.77	11.33	-0.0800	-
Lowes Defensive Pfolio	£11.95	12.58	-0.1100	-
Lowes Collective Pfolio Ltd	£11.2	11.74	-0.0800	-
For Schroder Korea Gov see Hambros				
TSB Fund Managers (CI) Ltd				
TSB Island Pension	712.6	750.2	+0.3	-
Island Equity Acc	123.9	130.4	-0.8	-
WMB Asset Management (Jersey) Ltd				
Fle 500 Le Mlle Dollar Income	$990.97	991.11xd	—	-
Worldinvest (Managers) Jersey Ltd				
Worldinvest Inc Fd †	£252.16	253.43	—	5.90
Excalibr Global Eqty $ *	$80.98	81.39	—	-
Excalibr Stg Gtd Fxd Inc *	£11.56	11.63xd	—	5.00

Valued weekly * Mondays † Wednesdays

LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Dresdnerbank Asset Mngmt SA (u)						
6A route de Treves L-2633 Senningerberg 00 352 4634831						
DB-Lux Bondspezial (Inc)			DM72.18	74.35	—	-
DB-Lux Bondspezial (Bil)			DM101.11	104.14	—	-
E.T. Investment Management Ltd						
13 Rue Goethe, BP 413, Luxembourg 00 352 404646217						
Establishment Tst Jul 8				$2.72	-0.01	-
Eigistan Global SICAV (u)						
13 Rue Goethe, L-1637, Luxembourg 00 352 404646213						
Equity Portfolio Jul 11				$2.308	-0.044	-
Reserve Portfolio Jul 11				$2.034	-0.003	-
EquiFund—Wright National Eqty Fd (u) (x)						
14 rue Aldringen, L-1118 Lux 00 352 470 96500						
Australasian Nat			A$18.28	18.44	—	-
Austrian Nat Equity			Sch669.34	67.61	—	-
Belgium/Lux Nat Eqty			BFr724	732	—	-
French Nat Equity			FFr129.35	131.70	—	-
German Nat Equity			DM17.72	17.90	—	-
Dutch Nat Equity			Dfl37.23	37.61	—	-
Italian Nat Equity			L12335	12459	—	-
Japanese Nat Equity			Y1372	1386	—	-
Hong Kong Nat Equity			HK$115.0	116.20	—	-
Spanish Nat Equity			Pta1198	1210	—	-
UK Nat Equity			£10.13	10.23	—	-
United States Dlr Res				$10.08	—	-
Fidelity Funds (u)						
Kansallis Hse, Place de L'Etoile, L-1021 Lux BP 2174						
Uk-01732 777377 Lux-00 352 250351230						
Major Market Funds						
America				$2.178	-0.028	-
Europe				DM4.734	-0.021	-
International				$15.78	-0.16	-
Japan				Y142.7	-1.0	-
Pacific				$9.050	-0.098	-
South East Asia				$2.786	-0.018	-
Country Select Funds						
ASEAN				$22.46	-0.13	-
Asian Special Situations				$11.01	-0.07	-
Australia				A$14.89	-0.18	-
Emerging Markets				$8.778	-0.054	-
European Sm Cos F				DM12.86	-0.13	-
France				FFr84.85	-0.80	-
Germany				DM20.18	-0.24	-
Hong Kong				$43.42	-0.32	-
Iberia				Pta1781	-12	-
Indonesia				$10.66	-0.13	-
Italy				L14837	-254	-

[illegible]

OFFSHORE INSURANCES

[illegible]

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Offshore Insurances and Other Funds

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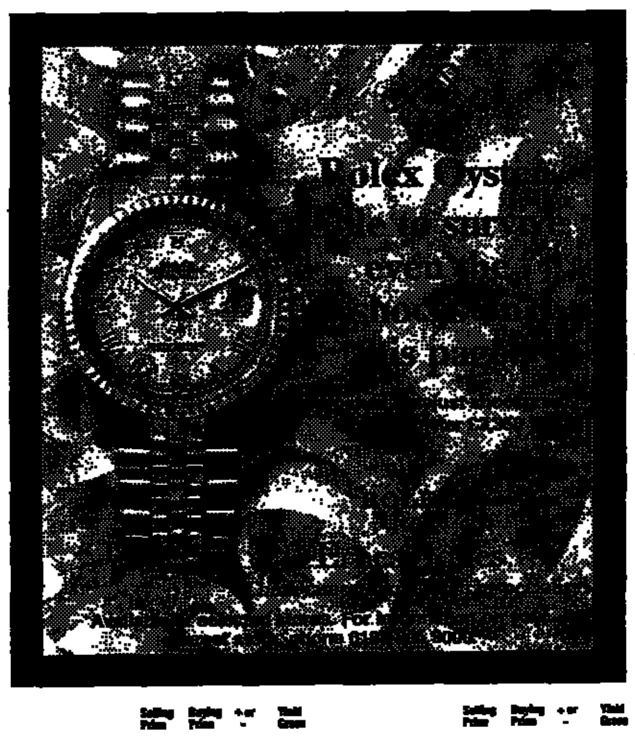
OTHER OFFSHORE FUNDS



LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½	—	£30¼	£28½	1,804	2.8	Φ
Barlow	‡†	585xd	—	£10⅞	583	1,340	2.0	–
Gold Flds Prop R		120xd	—	170	120	12.3	7.3	9.2
HK Props		75	—	98	75	3.01	12.4	–
SASOL	♥	647	—	718	475	3,788	1.8	–
SA Brews		£18½	—	£28¼	£17½	5,448	2.0	Φ
Standard Bank		£24½	–½	£32.7	£20¼	2,934	1.6	20.6
Tiger Oats	†	880	–70	1270	805	1,278	2.0	17.1
Tongaat-Hulett		813xd	—	1347	765	768.6	2.3	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- φ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
s Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest special earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
B Forecast annualised yield, p.e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the Internet at www.FT.com.

LONDON STOCK EXCHANGE

MARKET REPORT

Less than energetic Footsie slides below 3,700

By Steve Thompson,
UK Stock Market Editor

One of the most disappointing market debuts by a privatisation stock, renewed worries about Wall Street and a retreat by gilts produced a subdued performance by UK stocks yesterday, driving the FT-SE 100 index below 3,700.

British Energy's market debut, which produced the first discount to an offer price since the government's privatisation programme was initiated in the 1980s, added to the gloom that has settled over the market in the past few weeks.

One leading stock market trader described the shares as "a dog stock in a dog market", and said their performance had been one reason why the institutions had been reluctant to push money into equities. "It is being taken by some fund managers as a signal that the bull market might have finally run its course," he added.

British Energy shares were always likely to be pressured on the downside, after last week's news that two of its nuclear plants had been closed down, and also in the wake of bad publicity over the discovery of radioactive leaks at its Sizewell B plant.

Wall Street, which has come under heavy selling pressure over the past couple of weeks, during which the Dow Jones Industrial Average fell by more than 100 points on two occasions, held up well on Friday, but dropped again yesterday.

At the outset the Dow fell by some 50 points, triggering restrictions on programme trading. Some 90 minutes after London closed, the Dow was 53 points off.

In London, the FT-SE 100 was down 30.0 at 3,698.3, extending the decline over the past three trading sessions to 74.5, or 2 per cent. The bumper dividend payments at National Power were responsible for 10.2 points of the decline.

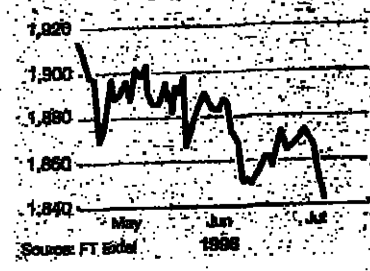
There was real downside pressure, too, in the second line stocks, where the FT-SE Mid 250 index also moved back through a psychologically important level, dropping 24.9 to 4,291.6.

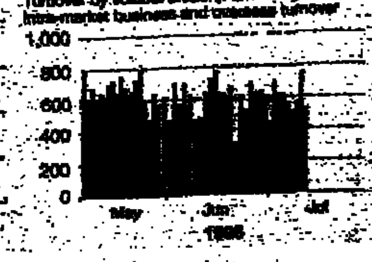
Dealers spoke of worrying developments in the biotech stocks, which figure prominently in the Mid 250 index. British Biotech was one of the poor performers in the sector, as traders fretted about the possibility of a poor take-up of the rights issue, while Scotia Holdings and Chiroscience were other underperformers in the sector.

British Energy apart, it was a disappointingly quiet day in the stock market. Turnover of 163m shares in British Energy accounted for around a quarter of the total business. At the 6pm count, volume in equities reached 662.9m shares. Retail business in the market last Friday was valued at £1.78bn.

Traders noted the low level of business, ex-British Energy, yesterday and said they did not expect any real upturn in the near future.

"London has no appetite for stock at the moment, the clients simply do not want to deal," said a leading marketmaker. He added that investors wanted to see details of the chancellor's meeting with the governor of the Bank of England, held on June 5, before taking any serious investment decisions. "If there has been a row over rates, the market will be very unhappy," he said.





Indices and ratios

FT-SE 100	3698.3	-30.0	FT Ordinary index	2723.1	-20.1
FT-SE Mid 250	4291.6	-24.9	FT-SE-A Non Fins p/e	16.85	16.75
FT-SE-A 350	1860.0	-14.2	FT-SE100 Fut Jul	3692.0	-31.0
FT-SE-A All-Share	1842.72	-13.68	10 yr Gilt yield	7.93	7.88
FT-SE-A All-Share yield	3.90	3.87	Long gilt/equity yld ratio:	2.13	2.14

Best performing sectors

1	Tobacco	+1.3
2	Telecommunications	+0.4
3	Distributors	0.0
4	Gas Distribution	0.0
5	Chemicals	0.0

Worst performing sectors

1	Electricity	-7.7
2	Electronic & Elect Equip	-1.9
3	Utilities	-1.5
4	Diversified Inds	-1.4
5	Extractive Inds	-1.4

P&O up on 'split' talk

Transport and property group P&O sparkled as the subject of its demerger was raised once again in a note published by UBS.

Speculation about a demerger last year faded when the company indicated it had no such plans, but the return of the subject yesterday helped the shares resist the market slide and they closed 9 ahead at 492p after trade of 3.1m.

In a note to investors, analysts at the securities house said: "P&O's shares have suffered an agonising fall over the last 10 years and consequently have the dubious honour of being the fourth worst performing FT-SE 100 stock, having underperformed by 56 per cent . . . we conclude that a demerger of P&O's complex structure could enhance shareholder value by as much as 30 per cent."

Urging investors to buy the stock, UBS added: "A demerger could unlock the hidden value within the group and improve the shape of the balance sheet. We consider that the best two candidates for demerger are the cruise and property businesses."

Sentiment in the stock was boosted by rumours that the group, due to reveal traffic data next week, may also announce property disposals at the same time.

There was also talk that the government may this week lift restrictions on ferry alliances, a move which analysts said would enable P&O to rationalise its ferry services across the Channel, possibly through combining its operations with those of a rival.

Energy fall-out

Last in the government's list of privatisations – and arguably least – British Energy dominated the volume and mood in London.

Turnover in the partly-paid tranche of this unpopular debutante reached 163m shares and the price, which opened at 105p, slid back to end the day at 94p.

Sentiment was not helped generally by selling on Wall Street and lack of enthusiasm in London. More specifically, the closure of two of the group's nuclear reactors last week added to the woes surrounding the float.

Yesterday's slide represented a 10.5 per cent loss to the institutional investors and a 6 per cent loss for individual buyers.

One analyst said that although BZW, which oversaw the flotation, was still stabilising the price, a yield of 9 per cent also offered quite a strong argument for stemming the slide.

However, he added, the only winner was the government. "It may not have made as much money as it hoped, but at least it can refute any opposition claims that it had sold the company too cheaply."

Tesco concerns

Tesco fell a further 11 to 278p, on trade of 10m shares, as the market grew more anxious about whether it intends to acquire Docks de France, the French supermarket chain. A rescue bid, said analysts, would be costly and heavily dilutive.

Analysts suggested there might be some switching from Tesco into J. Sainsbury, which rose 6 to 376p.

BAT Industries, the tobacco and insurance conglomerate, rallied 6 to 484p following the announcement that it has restructured its UK financial services operations.

RTZ, one of the world's biggest mining groups, receded 16 to 900p as HSBC James Capel became the latest broker to downgrade forecasts.

Reuters, the news and financial information organisation, dropped 17 to 738p in spite of launching its 3000 series of new products for financial markets with demonstrations to clients.

Mr Brian Newman of Henderson Crosthwaite said the reaction to the new system had been very positive, but the stock was highly rated and there was a certain amount of selling coming out of New York ahead of interim figures on July 24.

Pearson bounced from Friday's six-month low on a weekend press report that the company had begun the search for a replacement to Mr Frank Barlow, the managing director.

The report boosted hopes that the company will focus on a smaller number of businesses. Pearson rose 2 to 643p.

A sizeable bought deal in Royal Insurance as part of the "tidying up" ahead of the merger with Sun Alliance saw turnover in the former reach 16m. The shares had been held in Sun Alliance's portfolio. Royal dipped 8 to 393p and Sun 9 to 366p.

UK airports operator BAA was the subject of profit-taking late in the day. The shares gave up 7 to 478p, but dealers reported further switching into the stock from British Airways.

Traders continued to hope for a favourable pricing formula from the Civil Aviation Authority, which is the industry regulator, which is to be announced today. BAA is to hold a late analysts' meeting to highlight its response.

There was bargain hunting in Channel tunnel operator Eurotunnel, currently awaiting a mediators' report on its refinancing talks. The shares gained 7½ to 107¾p.

Glaxo Wellcome resisted the market slide, with help from press comment arguing that the company would benefit from the vast market for Aids drugs. The article followed last week's Vancouver Aids conference. Also, Glaxo announced that the US Food and Drug Administration had finally cleared Ultiva, a drug used in anaesthesia, for injection. The shares lost 2 to 874p.

British Biotech slipped sharply in the nil-paid shares as the success of its rights issue appeared to be in doubt.

The slide from 16 to 2p reflected a fall of 18, to 2040p, in the fully paid. At the closing level the shares were at a discount to the rights issue price of 2050p. Analysts said that, while leading institutional shareholders would probably be duty-bound to take up the issue tomorrow, there would be no apparent benefits for smaller investors.

J.D. Wetherspoon fell 49 to 895p amid rumours of selling by US investors, which hold a substantial percentage of the company.

Great Universal Stores recovered slightly after last week's results, rising 6 to 644p. One analyst said last week's fall was overdone. Media speculation over whether retail price maintenance laws may be abolished for drugs adversely affected Boots, which fell 10 to 572p. Analysts said Boots could gain market share if the law were changed but gross margins would be lower.

Fayrewood, an AIM-quoted stock which sells specialist professional audio equipment to distributors and dealers, was placed at 38p and rose to 43p.

Shares in a number of companies criticised by Mr Terry Smith in a new edition of his book, Accounting for Growth, remained under a cloud. The list included BTR, down 5¾ to 235¾p, Tomkins, 9 to 254p, and SmithKline Beecham, 10 to 685p.

Sportswear group Pentland added 2 at 120p on hopes of a big return for its stake in Authentic Fitness Corporation, which is the subject of a bid from Warnaco. Pentland has 28 per cent and it said yesterday that, unless a higher offer was forthcoming, it intended to vote against it.

MARKET REPORTERS:
Peter John, Joel Kibazo, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Jul 15	Jul 12	Jul 11	Jul 10	Jul 9	Yr ago	*High	*Low
Ordinary Share	2723.1	2743.2	2760.8	2768.2	2755.8	2567.0	2885.2	2696.7
Ord. div. yield	4.10	4.03	4.03	4.02	4.05	4.13	4.12	3.76
P/E ratio net	16.08	16.38	16.38	16.40	16.30	16.12	17.25	15.96
P/E ratio nil	16.00	16.29	16.29	16.30	16.20	15.88	17.08	15.76

Ordinary Share Index: since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2742.8	2742.9	2739.9	2740.1	2740.2	2737.1	2734.4	2731.6	2719.9	2745.2	2719.5

	Jul 15	Jul 12	Jul 11	Jul 10	Jul 9	Yr ago
SEAQ bargains	30,398	28,200	28,192	28,145	28,123	23,708
Equity turnover (£m)†	–	1785.2	1703.4	2042.8	1623.5	987.7
Equity bargains†	–	33,254	33,115	32,971	35,188	36,894
Shares traded (m)†	–	613.4	537.5	756.7	576.0	442.0

†Excluding intra-market business and overseas turnover.

	Jul 15	Jul 12	Jul 11	Jul 10	Jul 9	Yr ago	*High	*Low
FT-SE AIM	1050.50	1062.10	1073.10	1075.10	1077.10	–	1140.40	965.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	407	Total Highs	32	Total contracts	32,963
Total Falls	891	Total Lows	89	Calls	13,887
Same	1,418			Puts	19,076

July 15 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3726.0	3692.0	-31.0	3730.0	3683.0	9773	59566
Dec	3738.0	3712.5	-31.5	3738.0	3711.0	116	1681
Mar	3750.0	3725.0	-25.0	3750.0	3745.0	100	0

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4284.0	4284.0	-34.0	4284.0	4284.0	250	3741

■ FT-SE 100 INDEX OPTION (LIFFE) (3695) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FT GOLD MINES INDEX

[illegible]

FT - SE Actuaries Share Indices — The UK Series

[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 15 / Sch)

BELGIUM/LUXEMBOURG (Jul 15 / Frs.)

CZECH REP (Jul 15 / Korunа)

DENMARK (Jul 15 / Kr)

FINLAND (Jul 15 / Mkk)

FRANCE (Jul 15 / Frs.)

GERMANY (Jul 15 / Dm.)

GREECE (Jul 15 / Drachma)

ITALY (Jul 15 / Lira)

NETHERLANDS (Jul 15 / Fls.)

NORWAY (Jul 15 / Kroner)

POLAND (Jul 15 / Zloty)

PORTUGAL (Jul 15 / Escudo)

SPAIN (Jul 15 / Pts.)

SWEDEN (Jul 15 / Kronor)

SWITZERLAND (Jul 15 / Frs.)

TURKEY (Jul 15 / Tk Lira)

PACIFIC

JAPAN (Jul 15 / Yen)

AUSTRALIA (Jul 15 / Aus$)

HONG KONG (Jul 15 / H.K.$)

INDONESIA (Jul 15 / Rupiah)

MALAYSIA (Jul 15 / MYR)

NEW ZEALAND (Jul 15 / NZ $)

SINGAPORE (Jul 15 / S$)

SOUTH KOREA (Jul 15 / Won)

TAIWAN (Jul 15 / TW $)

THAILAND (Jul 15 / Baht)

AFRICA

SOUTH AFRICA (Jul 15 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jul 15 / Can $)

4 pm close

MONTREAL (Jul 15 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

US INDICES

■ RATIOS

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ INDEX FUTURES

■ S&P 500

■ Nikkei 225

■ CBOT

■ SOFFEX

■ TOKYO - MOST ACTIVE STOCKS: Monday, July 15, 1996

	Stocks Traded	Closing Prices	Change on day
Toshiba Corp	3.8m	751	-9
Canon	2.9m	2150	-60
Sumitomo Mtl Ind	2.9m	310	+1
TYK Corp	2.7m	1010	+15
Kobe Steel	2.6m	292	-3
Hitachi	2.6m	1010	-20
NKK Corp	2.5m	305	+1
Bk Tk-Mitsubishi	2.3m	2300	-30
Mitsubishi Chem	2.2m	500	-1
Nippon Stl Corp	2.2m	346	+1

4 pm close July 15

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
23¾	18⅜	AAR	0.48	2.6	18	140	18¾	d18⅜	18¾	
49⅛	39⅜	AMP	1.00	2.6	18	5043	38¼	37⅝	37¾	-½
97½	68	AMR			19	6773	83⅝	79⅛	79⅝	-3⅝
50½	37⅞	ASA	1.80	4.5	26	348	40½	39⅞	40	-⅜
44¾	36⅛	AbbotL x	0.96	2.2	19	17216	44⅜	43⅜	43½	-¾
17¼	12¾	Abitibi Pr	0.40	3.1	6	605	13	d12¾	12⅞	
40⅝	27	ABM Ind	0.70	1.8	20	240	39⅞	39½	39½	-¼
18⅝	13⅞	Acptncetn			46	89	17¾	17⅝	17¾	
50⅜	37¼	ACE Ltd	0.56	1.3	10	243	44	42⅜	42⅜	-1⅞
9⅞	9⅛	ACM Gvt In x	0.90	9.2	8	144	u9⅞	9⅝	9¾	
7⅞	6⅝	ACM GvOpp x	0.57	8.3		177	6⅞	6¾	6⅞	
7¼	6	ACM Gvt Sp x	0.66	10.4		153	6½	6⅜	6⅜	-⅛
9⅛	8¼	ACM Gvt Sa x	0.90	10.7		276	8½	8⅜	8⅜	-⅛
9½	8⅜	ACM Man x	0.90	10.4		259	8⅝	8½	8⅝	
30¾	16½	AcmeCiv	0.52	1.7	7	6	30	29⅞	29⅞	
13⅞	6⅛	Acme Elect			38	320	7¼	6⅞	6⅞	-⅜
33¾	27¼	Acordia	0.80	2.5	19	37	32⅝	32⅜	32⅜	
21⅜	12	Acuson			58	803	13¾	13	13	-¼
19½	18⅛	Adams Expr	0.48	2.6	0	369	18⅝	d18⅛	18⅛	-½
21¼	11¾	AdvMic			7	5052	12⅛	d11¾	11⅞	-¼
11⅛	8½	Advest Grp	0.16	1.6	7	91	10⅛	9⅞	9⅞	-⅛
28⅛	9⅛	Advo Inc	0.10	1.1	52	288	9⅝	9¼	9⅜	
50⅞	41⅛	Aegon	1.19	2.8	14	88	46⅞	46½	46½	-1⅜
6¾	3½	Aerfx			3	475	6⅛	4⅞	4⅞	-¼
78¾	55⅜	AetnaL	2.76	4.5	16	20129	62⅞	60⅛	60⅞	-2
33	28¼	Aflac	0.40	1.4	12	850	29⅛	d28¼	28½	-⅞
20⅜	17⅛	AGL Res	1.06	5.8	16	256	18¾	18⅜	18⅜	-⅛
28	21¼	Ahmnsn	0.88	3.6	6	3836	25	24⅛	24¼	-⅝
60⅞	50⅜	AirPrC	1.10	2.0	14	1154	55½	54½	54½	-1

[illegible]

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- D -

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- E -

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- F -

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- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

4 pm close July 15

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
20⅜	12½	SciAtl	0.06	0.5	32	4387	13⅛	d12½	12⅝	
21	17	Scotsmn	0.10	0.5	11	6	19⅜	18¾	18¾	-⅛
47½	38⅛	Scripps	0.52	1.2	24	669	44⅞	42⅞	42⅞	-1⅞
16⅛	13⅝	ScuddrNAsF	0.02	0.1		177	14¼	d13⅝	13¾	-⅜
12⅞	11	ScuddrNEuF	0.16	1.3		618	12⅛	12	12	-¼
20½	18	SeaCnB	0.70	3.9	2	17	18⅛	18	18	-¾
16	15	SeaC1.4625	1.46	9.6		3	15½	15¼	15¼	-⅛
67¾	39⅝	S'gate			15	13047	42¼	d39⅝	40	-1⅞
38⅞	31⅝	Seagrm	0.60	1.9	27	2540	33	d31⅝	31⅝	-1¼
28	17¼	Seagull En			16	537	25	24¼	24½	-½
38⅛	28	Sealed Air			24	447	33½	32¼	32¼	-¼
53⅞	38¾	SearsR	0.92	2.1	12	11170	46¼	42½	42⅞	-2
22⅞	18¼	SecCapS8	1.24	5.9	21	377	21	20⅞	21	+⅛
13	11⅞	Seligm Sel	0.84	6.7		43	12½	12½	12½	+⅛
23¾	13⅝	Sensormat	0.22	1.4	18	1833	16⅛	15⅝	15½	-½
44⅞	29½	SequaA	0.60	1.5	105	80	40⅞	40	40	-1
50	30	SequaB	0.50	1.0	127	5	49⅝	49⅝	49⅝	
60¼	38⅞	SerVCp x	0.48	0.9	28	3029	53¾	51¼	51⅞	-2½
23½	19½	SvMstr	0.68	3.0	15	560	22¾	22⅛	22⅝	-¼
6¾	4½	ServMerch			18	1726	5⅛	4⅞	4⅞	
48¼	28½	SGSThm			6	2353	31⅞	29¾	29¾	-1⅝
15⅛	10⅝	Shaw Ind	0.30	2.4	37	1317	12⅝	12¼	12¼	-½
72⅞	10⅛	Shelby Wt	0.32	2.9	19	16	11½	11⅛	11⅛	-⅜
89⅞	76⅝	ShellTr	3.26	3.7	17	283	89⅝	88	88	-1⅝
47	39	ShrW	0.70	1.5	19	2117	46¾	45½	45⅝	-¾
13⅜	7⅞	Shoneys			10	441	9¾	9½	9½	-⅜
35½	21	Showboat	0.10	0.5	32	1227	23¾	21½	21⅞	-2

Price data supplied by Telekurs

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NASDAQ NATIONAL MARKET

4 pm close July 15

AMEX PRICES

4 pm close July 15

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NVR		8	196	10⅝	10½	10⅝	+⅛
Pegasus G	0.10	122	3200	12¾	12¼	12¼	-⅜
Perini	0.80	1	81	11⅛	10⅞	11⅛	+⅛
PitWay A	0.39	13	110	41¼	41	41	-½
PMC	1.12	11	15	12⅞	12¾	12¾	+⅛
RegalBtad		115	8	31¼	31¼	31¼	

AMERICA

Dow slides 55 points by midsession

Wall Street

US shares continued to move lower at midsession as investors fled many of the year's high flying technology issues, *writes Lisa Bransten in New York.*

Trading was unsteady as the Dow Jones Industrial Average moved more than 50 points lower near 10.40am, triggering the "uptick" rule that restricts program selling. The collar was later lifted as blue chips returned to within 25 points of Friday's close, only to be put on again almost exactly two hours later as the index once again showed a loss greater than 50 points.

At 1pm, the Dow was 55.04 weaker at 5,455.52. The Standard & Poor's 500 lost 6.06 at 640.13 and the American Stock Exchange composite was off 7.41 at 542.36. NYSE volume came to 200m shares.

The technology-rich Nasdaq composite shed 22.16 to 1,051.33, putting it on course to close below 1,100 for the first time since March 28. Early yesterday afternoon the Nasdaq was 13 per cent below its record high set on June 5.

The Pacific Stock Exchange technology index lost 2.6 per cent and the American Stock Exchange/Interactive Week index of Internet-related shares was 5.8 per cent lower.

Applied Materials, the semiconductor equipment company, added to growing concerns about profitability in the high-tech sector by warning that it expected to report third-quarter sales and profits below most analysts' projections. Shares in the company fell $2¾, or 8 per cent, to $25¾.

Other tumbling tech stocks included Iomega, off $3 or 11 per cent at $23¾, US Robotics, $4 or 6 per cent weaker at $67⅞, and Netscape Communications, which shed $3¾ or 7 per cent to $45⅝.

The losses came even though several of the companies reporting quarterly results yesterday were ahead of expectations. Two investment banks, Donaldson Lufkin & Jenrette and PaineWebber, both managed to top earnings expectations. DLJ added $¾ at $29⅝, while PaineWebber was unchanged at $21.

CPC International reported second-quarter earnings exactly in line with expectations but the shares slid $2⅝ to $67⅝ after it warned that high corn prices would hurt its third-quarter results.

Canada

Toronto was dragged lower at midsession by heavy losses in golds as the bullion price fell and as investors awaited more US quarterly earnings statements. The TSE 300 composite index was 29.75 down by noon at 5,011.70.

Arequipa Resources shed 25 cents to C$38.30 as investors awaited a response from the takeover target after Barrick Gold launched a C$27 a share offer last Thursday. Barrick fell 55 cents to C$36.95.

SOUTH AFRICA

Equities retreated in the afternoon to close near their opening levels. The overall index was finally up 5.2 at 6,808, the industrials index gained just 4.3 at 8,014.2 and the gold shares index lost 2.7 at 1,867.5. De Beers shed 50 cents to R146 and Amic fell R4.50 to R152.

Mexico declines 1.3%

There was further concern in MEXICO CITY as the market broke through the 3,000 support level in the IPC index.

Analysts said that investors, especially from overseas, were cautious ahead of US economic data as well as the spate of corporate results which were due to be released soon. By midsession the IPC index was down 39.17, or 1.3 per cent, at 2,970.81.

In SAO PAULO the Bovespa index was holding its own, off 104.41 at 66,418.

Last week, the Bovespa index jumped by nearly 6 per cent, boosted by telecom shares, particularly Telebras.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1996	% change sterling † Start of 1996	% change in US $ † Start of 1996
Austria	-1.91	-6.77	-1.39	+9.62	+3.05	+3.04
Belgium	-2.23	-2.69	+13.91	+5.47	-1.04	-1.05
Denmark	-0.30	+2.13	+16.91	+11.59	+5.46	+5.44
Finland	-1.40	-2.07	-19.52	+9.24	+1.96	+1.95
France	-2.28	-2.53	+7.31	+12.45	+6.72	+6.70
Germany	-1.09	+0.47	+13.79	+11.07	+4.42	+4.41
Ireland	-1.84	-4.60	+17.37	+9.26	+8.66	+8.65
Italy	-3.22	-2.14	-3.20	+4.59	+8.30	+8.28
Netherlands	-1.66	-1.34	+23.39	+13.82	+6.77	+6.75
Norway	-0.58	-1.46	+10.90	+12.50	+9.26	+9.24
Spain	-1.94	-3.15	+21.94	+13.07	+7.16	+7.15
Sweden	-1.47	-2.68	+10.79	+11.60	+10.28	+10.27
Switzerland	-1.05	+4.85	+31.08	+13.82	+4.05	+4.03
UK	-0.42	-0.77	+8.26	+1.66	+1.66	+1.64
EUROPE	-1.01	-0.65	+12.06	+7.88	+4.27	+4.26
Australia	-3.13	-3.10	+1.84	-3.75	+3.19	+3.17
Hong Kong	-3.27	-0.99	+11.70	+8.57	+8.48	+8.47
Japan	-2.79	-3.38	+23.18	+3.21	-3.78	-3.80
Malaysia	+0.34	+1.95	+4.07	+13.84	+15.98	+15.96
New Zealand	-1.38	+1.02	-6.65	-3.73	+1.26	+1.24
Singapore	-3.18	-3.93	+1.87	-2.12	-2.53	-2.54
Canada	-0.32	+0.65	+6.90	+7.82	+7.37	+7.35
USA	-1.85	-3.28	+14.72	+4.50	+4.51	+4.50
Mexico	-3.68	-5.43	+18.52	+9.67	+10.66	+10.64
South Africa	-2.06	-1.42	+22.84	+9.85	-9.28	-9.30
WORLD INDEX	-1.84	-2.36	+15.54	+5.31	+2.60	+2.58

† Based on July 12 1996.

EUROPE

Mediaset debuts at premium in tumbling Milan

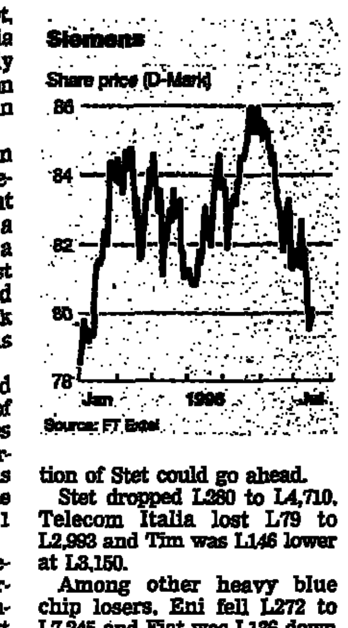
The market debut of Mediaset, Mr Silvio Berlusconi's media company, provided the only semblance of a bright spot on an otherwise dismal day in MILAN.

The Mediaset shares began trading at L7,550 and subsequently settled back to close at L7,316. That compared with a placement price of L7,000, a London grey market price last week of around L7,675, and expectations that the stock might have been quoted as high as L8,000.

The broad market tumbled 2.3 per cent as a number of political and economic worries made for a pessimistic performance. The Comit index was 14.97 lower at 629.81, while the real-time Mibtel index lost 3.1 per cent.

Mr Nicholas Potter at Credito Italiano said that the market had been pressured by concerns over wages growth next year, which he did not fully share, coupled with worries over the outlook for US interest rates. The absence of a keenly awaited reduction in domestic rates had also pressured the market.

He noted that telecommunications stocks, a long time favourite with foreign investors, were hard hit after Friday's news of a delay in establishing a regulatory body, necessary before the privatisation of Stet could go ahead.



Source: FT Extel

Stet dropped L280 to L4,710, Telecom Italia lost L79 to L2,993 and Tim was L146 lower at L3,150.

Among other heavy blue chip losers, Eni fell L272 to L7,245 and Fiat was L136 down at L4,926.

Elsewhere, Wall Street's influence made itself felt. FRANKFURT moved down in the Ibis after the Dax had risen to 2,550.53, closing at 2,529.50, off 19.47. Volume was DM6.8bn.

Siemens pleased investors with its good nine months' data but, after moving ahead to DM80.45 on the floor, it closed a marginal 27 pfgs up at DM80.01 in the Ibis. The group said it was looking for a 20 per cent increase in profits for the whole year, an estimate much in line with brokers' forecasts.

There were reports that Munich Re might be elevated to the Dax at the annual meeting of the review committee today. Munich Re, known for being very illiquid, climbed DM65 to DM3,305 in better than average turnover.

Metallgesellschaft and Continental, both of which could face being dropped from the Dax when the changes come into force on September 23, moved down respectively 70 pfgs and 30 pfgs to DM25.80 and DM23.35.

Escom, the computer retailer, slid 43 pfgs, or 23 per cent, to DM1.42 on news it was filing for bankruptcy.

AMSTERDAM was unhappy, with a number of factors, including expectations of a disappointing results season, adding to the gloom. The Aex index retreated 7.77, or 1.4 per cent, to 539.24.

Philips was one of the casualties ahead of its second-quarter figures next week and the shares settled at a new low for the year of Fl 50.80, down Fl 1.70. However, its associate Polygram went in the opposite direction, rising 40 cents to Fl 91.30, with UK institutions seen active.

Ahold receded Fl 1.30 to Fl 88.70 ahead of the pricing of its Fl 3.2bn share issue.

PARIS went sour, with the CAC-40 index declining 21.04 to 2,029.51. Turnover was some FFr4bn.

Cerus dipped FFr6.45, or 6.5 per cent, to FFr93.50 on expectations that a planned FFr1bn convertible bond issue might be postponed or cancelled. Cerus denied the reports.

Eurotunnel made headway, up 65 centimes, or nearly 8 per cent, to FFr8.95 on suggestions that the company and its creditor banks were close to striking a debt accord.

Thomson-CSF was off FFr4.70, or 3.3 per cent, at FFr137, and there were reports that Thomson, the parent group, would hand its report on privatisation to the government very soon.

ZURICH was weak in very thin trade, with activity dampened by caution ahead of US inflation data today and weighed by sell programs. The SMI index fell 31.2 to 3,754.6.

Against the trend, pharmaceuticals were actively traded. Roche certificates were down SFr85 to SFr9,555 and Sandoz gave up SFr13 to SFr1,431. Ciba registered shares relinquished SFr9 to SFr1,524.

Nestlé registered shares fell SFr8 to SFr1,466 ahead of half-year sales figures, expected today. Analysts have forecast six-month sales of around SFr29bn, compared with SFr27bn a year ago.

HELSINKI was easier as Nokia extended its losses to match its softer opening in New York. Nokia closed official trade down FM2.50 at FM159.50, and analysts suggested that activity was likely to remain cautious ahead of second-quarter earnings reports from Microsoft and AT&T in the US this week.

The Hex index softened 6.31 to 2,012.80 in thin volume of FM171.7m, a third of it in Nokia.

Raisio, the foods group, hit another high for the year of FM328.00 after a weekend press report that reviewed the history of its cholesterol-reducing margarine, Benecol. Subsequently, the stock pulled back to finish unchanged on balance at FM325.00.

Benefon, the mobile phones manufacturer, lost FM3.50 to FM70.00, as delays in launching a GSM product continued to weigh on the stock.

TEL AVIV continued to experience heavy falls as the problems in the country's provident fund industry deepened. The Mishtanim index dropped 5.57, or 3 per cent, to 178.16.

There are estimates that public withdrawals from provident funds in July could reach Shk2bn, compared with June's Shk1.1bn.

Bank Hapoalim declined 4.25 per cent to Shk438.

WARSAW recovered some of last week's loss, but there were doubts that the rebound would be long lasting.

The Wig index rose 124.7, or 1 per cent, to 13,394.3 and turnover was up 4 per cent to 101.2m zlotys.

Analysts said that investors were now awaiting corporate results for the first half, which are due to be released on Thursday.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Jul 15 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1671.50	1670.66	1670.31	1670.68	1670.36	1669.06	1663.73	1664.07
FT-SE Eurotrack 200	1710.84	1710.48	1710.30	1711.51	1711.09	1709.07	1707.56	1706.17

	Jul 12	Jul 11	Jul 10	Jul 9	Jul 8
FT-SE Eurotrack 100	1675.55	1669.00	1699.63	1690.90	1696.42
FT-SE Eurotrack 200	1715.71	1730.09	1732.35	1731.79	1725.13

Base value 1000 (26/10/90); High/day: 100 - 1671.67; 200 - 1712.20 Low/day: 100 - 1663.66 200 - 1705.76 † Partial.

Written and edited by Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei ahead despite expectation of discount rate rise

Tokyo

The Nikkei average rose on late buying in spite of reports of an imminent increase in the official discount rate, *writes Emiko Terazono in Tokyo.*

The 225-share Nikkei index gained 96.97 at 21,753.42, the day's high point, after moving down to 21,549.24 on arbitrage linked selling and small-lot profit-taking.

Volume, at 234m shares, was the lowest of the year as investors remained inactive ahead of US congressional testimony by Mr Alan Greenspan, chairman of the Federal Reserve, which is expected to indicate both the course of the US economy and the board's monetary policy.

Overseas investors maintained a cautious stance, taking profits on holdings, especially in the electrical machinery, steel and shipbuilding sectors.

The Topix index of all first section stocks slipped 2.78 to 1,644.47 and the Nikkei 300 closed 0.39 easier at 304.41. Declines led advances by 582 to 410, with 211 issues remaining unchanged.

In London the ISE/Nikkei 50 index shed 0.53 to 1,482.06.

A report on Sunday by the Yomiuri Shimbun, a leading newspaper, that the Bank of Japan was poised to raise the official discount rate, currently at a record low of 0.5 per cent, weighed on confidence.

Interest rate concerns depressed banks, with Industrial Bank of Japan off Y10 to Y2,510 and Bank of Tokyo-Mitsubishi surrendering Y30 to Y2,300.

Brokers were lower on fears that current volumes could hit earnings. Nomura Securities dipped Y10 to Y1,980 and Yamaichi Securities Y5 to Y695.

Sankyo, the drugs company, which rose sharply last Friday on reports of its new anti-diabetic drug, encountered profit-taking and lost Y50 to Y2,850.

Profit-taking hit oil refiners and distributors, which had gained over the past few weeks on higher crude oil prices. Showa Shell Sekiyu receded Y20 to Y1,050 and Cosmo Oil Y15 to Y668.

High-technology stocks lost ground. Hitachi fell Y20 to Y1,010 and Toshiba, the day's most active issue, declined Y9 to Y751.

Steels and shipbuilders were mixed. Nippon Steel firmed Y1 to Y346 and Kawasaki Heavy Industries gained Y1 to Y537, but Mitsubishi Heavy Industries fell Y8 to Y918.

In Osaka, the OSE average relinquished 71.19 to 22,875.26 in volume of 18.1m shares.

Roundup

A 2.5 per cent decline took SEOUL to a new low for the year after a day of depressed trading, due mainly to the forthcoming repayment of margin loans. The composite index dropped 21.19 to 814.21.

Brokers said that the total overhang of margin loans was estimated at Won2,500bn, of which about Won140bn had to be repaid this week.

SINGAPORE declined 1.3 per cent as selling pressure built on blue chips and in the absence of buyers. The Straits Times Industrial index fell 28.62 to 2,180.80, with investors said to be switching funds to Malaysia.

Malaysian over-the-counter shares traded in Singapore continued to dominate dealing. Antah Holdings, a speculative Malaysian stock, advanced 12 cents to S$2.12 in heavy volume of 8.7m shares.

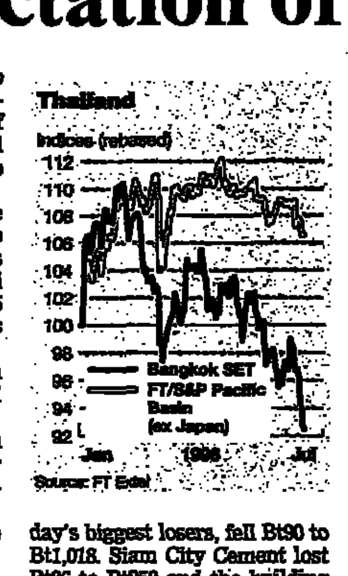
KUALA LUMPUR bought the beneficiaries of Bakun dam contracts, while blue chips were tugged lower by sharp declines in Genting and Resorts, following news of a bus crash near the Genting Highlands resort in which five people were killed and 18 injured. The composite index slipped 3.76 to 1,134.41.

Ekran, returning to trade after a month's voluntary suspension, gained M$1.70 to M$11.20 on news that the company, the main contractor of the Bakun dam, had awarded M$4.5bn worth of contracts to four affiliates.

Within that group, Granite Industries rose M$1.60 to M$5.60, Wembley Industries added M$1.35 at M$6.05 and Pacific Chemical gained M$1.55 at M$8.95. PWE Industries surged M$35.50 to M$139.

Genting and Resorts each fell 30 cents to M$18.90 and M$13.20 respectively.

BANGKOK saw a sell-off in the building materials sector on expectations of disappointing second-quarter earnings. The SET index fell 19.0 to 1,187.94 in turnover of Bt3.5bn. Siam Cement, among the day's biggest losers, fell Bt90 to Bt1,018. Siam City Cement lost Bt26 to Bt250 and the building index shed nearly 7 per cent.



Source: FT Extel

SYDNEY remained gripped by worries about the direction of the US market. The All Ordinaries index dipped 12.4 to 2,147.1 in A$566.2m turnover.

Support came early in the session on reports of strong demand for the government's offering of shares in Commonwealth Bank. New CBA shares, known as instalment receipts, were listed at A$6.08 and traded between A$5.99 and A$6.14 before closing at A$6.00, unchanged from the offer price, in volume of 18.5m receipts.

CBA ordinary fell 12 cents to A$10.01. Among other banks, National Australia Bank slipped 7 cents to A$11.28 and Westpac gained 3 to A$5.38.

TAIPEI was weaker as foreign funds sold stock. The weighted index eased 54.36, or 1 per cent, to 6,062.52. Turnover was T$36.2bn. Textile shares outperformed, rising 0.5 per cent, as reports suggested that the earnings outlook could improve because of a decrease in raw material prices. Far Eastern Textile gained 40 cents, or 1.3 per cent, to T$30.7 and Hualon 20 cents to T$25.

BOMBAY was higher in volatile trade dominated by a sharp rise in Reliance Industries in record trading volume. The BSE-30 index closed 60.81 ahead at 3,712.87, pulled up by Reliance, which gained Rs25.75 to Rs196.25 on rumours of alleged buying of the stock by investors close to management.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 12 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JULY 11 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	196.05	-1.1	187.25	137.14	155.19	163.54	-1.1	4.50	198.26	188.84	138.15	156.84	165.37	212.18	174.36	174.36
Austria (24)	179.83	-1.8	171.75	125.79	142.35	142.27	-1.8	1.98	183.18	174.57	127.64	144.92	144.85	198.98	168.11	197.87
Belgium (27)	206.95	-0.3	197.65	144.76	163.82	160.10	-0.3	4.16	207.48	197.73	144.57	164.14	160.56	215.81	186.06	197.56
Brazil (28)	189.70	1.2	181.18	132.69	150.16	351.00	1.2	1.86	187.41	178.60	130.59	148.26	346.83	189.70	123.97	145.42
Canada (120)	159.35	-0.2	152.19	111.46	126.14	168.06	-0.3	2.29	159.76	152.25	111.32	126.38	168.55	165.12	134.14	150.83
Denmark (30)	304.49	-0.8	290.81	212.99	241.03	242.89	-0.8	1.89	307.04	292.61	213.95	242.91	244.80	309.01	278.89	279.38
Finland (23)	190.72	-1.1	182.15	133.40	150.97	186.24	-1.0	2.68	192.83	183.77	134.37	152.55	188.14	276.11	171.73	256.45
France (96)	191.43	-1.2	182.83	133.91	151.53	154.78	-1.1	3.11	193.74	184.64	135.00	153.27	156.50	198.39	167.70	188.33
Germany (59)	170.91	-1.1	163.23	119.55	135.29	135.29	-1.0	1.84	172.80	164.68	120.41	136.71	136.71	174.38	156.66	162.85
Hong Kong (58)	420.52	-1.0	401.63	294.15	332.87	417.85	-1.0	3.42	424.92	404.95	296.09	336.16	422.22	451.19	348.81	378.56
Indonesia (27)	205.20	0.1	195.98	143.54	162.43	293.56	0.2	1.56	204.95	195.32	142.81	162.14	293.07	-	-	-
Ireland (16)	277.61	-1.0	265.14	194.19	219.75	245.42	-0.9	3.60	280.53	267.35	195.48	221.93	247.72	280.82	235.88	242.40
Italy (59)	79.80	-1.5	76.22	55.82	63.17	91.34	-1.5	2.41	81.04	77.23	56.47	64.11	92.74	84.53	67.22	77.99
Japan (481)	149.05	-1.3	142.36	104.26	117.99	104.26	-0.9	0.73	150.96	143.87	105.19	119.43	105.19	164.68	137.75	152.94
Malaysia (107)	562.57	-0.1	537.29	393.51	445.31	540.03	-0.1	1.66	563.16	536.70	392.42	445.53	540.28	585.09	425.77	549.50
Mexico (18)	1146.02	-1.4	1094.53	801.63	907.16	9589.74	-1.4	1.39	1161.80	1107.20	809.55	919.11	9705.39	1325.66	791.99	1205.74
Netherland (19)	291.14	-0.4	278.06	203.65	230.46	227.12	-0.3	3.17	292.20	278.46	203.60	231.16	227.86	299.88	245.79	256.55
New Zealand (15)	80.65	-1.3	77.03	56.42	63.84	62.28	-1.2	4.36	81.71	77.87	56.93	64.64	63.02	85.34	75.94	84.59
Norway (35)	252.66	-1.1	241.31	176.73	200.00	223.13	-1.1	2.08	255.55	243.54	178.07	202.17	225.51	258.94	222.24	237.56
Philippines (22)	209.48	-0.4	200.07	146.53	165.82	273.36	-0.4	0.56	210.31	200.42	146.54	166.38	274.44	-	-	-
Singapore (44)	396.88	-1.3	379.05	277.61	314.16	259.80	-1.0	1.46	401.98	383.09	280.11	318.01	262.35	465.21	355.81	395.76
South Africa (44)	349.50	-3.1	333.80	244.47	276.66	337.26	-1.6	2.15	360.72	343.77	251.35	285.37	342.77	437.76	342.04	343.97
Spain (37)	177.00	-1.0	169.05	123.81	140.11	171.67	-0.8	3.40	178.72	170.32	124.54	141.39	173.26	189.85	145.15	154.20
Sweden (45)	344.14	-1.0	328.68	240.73	272.42	341.72	-0.5	2.50	347.74	331.40	242.31	275.10	343.28	360.77	260.13	288.75
Switzerland (37)	245.50	-0.8	234.47	171.72	194.33	191.62	-0.7	1.55	247.55	235.92	172.49	195.84	192.96	252.34	191.24	201.58
Thailand (45)	163.57	-1.7	156.22	114.42	129.48	161.39	-1.7	2.05	166.35	158.53	115.91	131.60	164.10	193.95	146.74	183.91
United Kingdom (203)	234.32	-0.8	223.80	163.91	185.48	223.80	-0.5	4.18	236.12	225.02	164.53	186.79	225.02	237.49	216.52	221.93
USA (623)	262.55	0.1	250.76	183.65	207.83	262.55	0.1	2.25	262.30	249.97	182.77	207.50	262.30	276.47	224.83	229.57
Americas (793)	240.34	0.1	229.54	168.11	190.25	202.10	0.1	2.24	240.14	228.85	167.33	189.98	201.94	252.43	206.37	210.24
Europe (710)	209.42	-0.9	200.01	146.48	165.77	183.26	-0.8	3.09	211.32	201.38	147.25	167.17	184.67	213.30	189.33	194.97
Nordic (136)	298.31	-1.0	284.91	208.67	236.14	259.97	-0.6	2.37	301.39	287.23	210.01	238.43	261.85	306.61	261.13	276.27
Pacific Basin (879)	162.05	-1.2	154.78	113.36	128.28	115.10	-0.9	1.20	164.00	156.28	114.28	129.74	116.12	177.01	148.86	163.93
Euro-Pacific (1589)	181.67	-1.1	173.51	127.08	143.81	140.91	-0.8	2.11	183.80	174.97	127.93	145.25	142.07	190.57	166.51	176.41
North America (747)	256.27	0.1	244.75	179.26	202.85	255.63	0.1	2.25	256.06	244.03	178.42	202.57	255.44	269.52	220.03	224.04
Europe Ex. UK (510)	190.81	-1.0	182.23	133.47	151.04	158.86	-0.9	2.61	192.68	183.62	134.26	152.43	160.25	194.86	169.65	175.93
Pacific Ex. Japan (398)	281.90	-0.9	269.24	197.19	223.15	242.89	-0.8	3.04	284.41	271.04	198.18	225.00	244.94	296.68	243.59	263.02
World Ex. US (1799)	183.06	-1.0	174.84	128.05	144.91	145.43	-0.8	2.11	184.98	176.29	128.90	146.34	146.60	191.55	167.36	177.42
World Ex. UK (2226)	204.92	-0.5	195.71	143.34	162.21	174.61	-0.4	1.97	206.04	196.36	143.57	163.00	175.33	213.05	185.81	190.21
World Ex. Japan (1945)	239.53	-0.4	228.87	167.62	189.69	226.94	-0.3	2.58	240.50	229.19	167.58	190.26	227.60	247.55	212.52	215.59
The World Index (2426)	207.51	-0.6	198.19	145.15	164.26	179.15	-0.4	2.17	208.69	198.88	145.41	165.09	179.91	214.95	186.49	192.99

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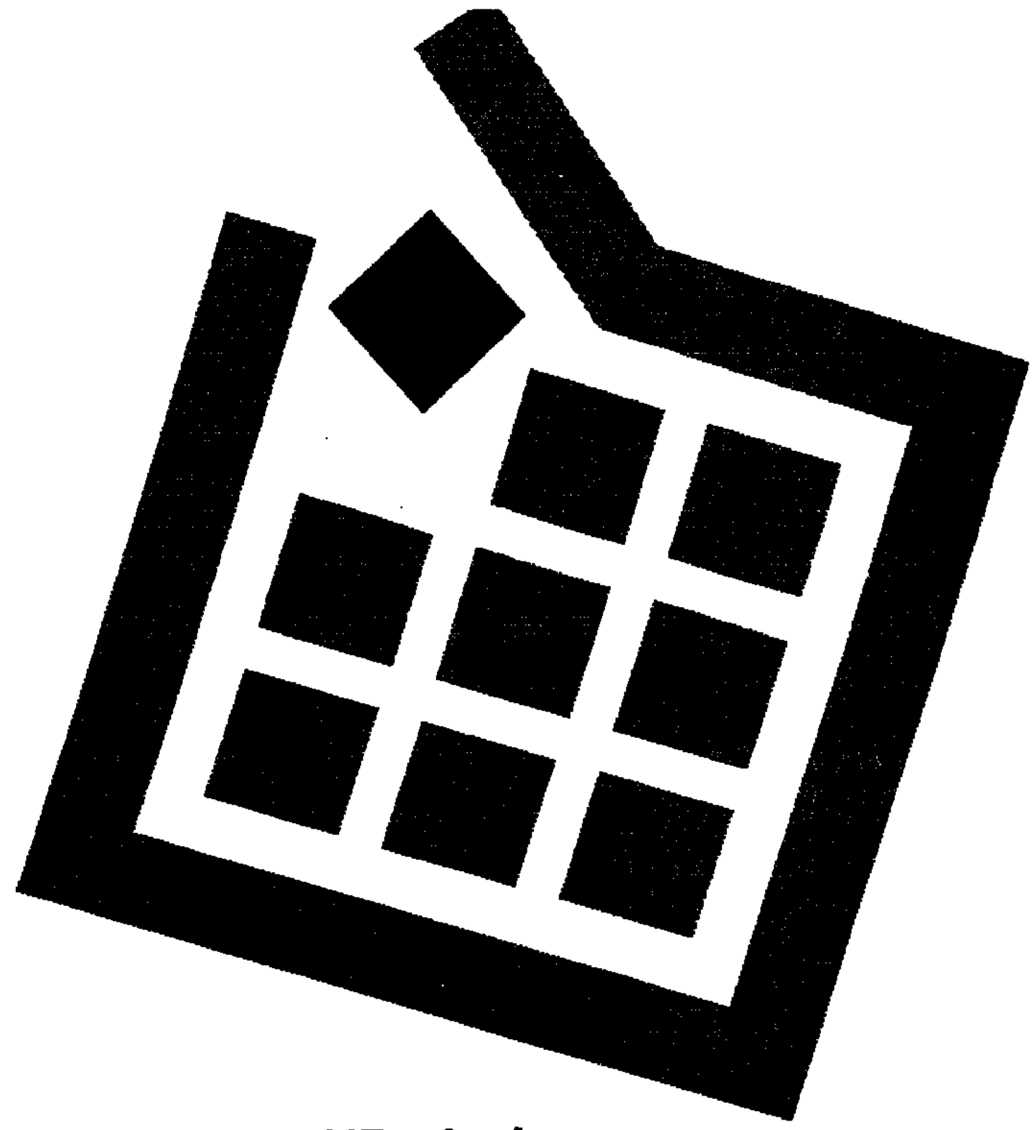


Soft 3 and Siemens Nixdorf

Maputo: Banco de Moçambique uses Siemens Nixdorf information assets for Latin-style banking.

Projects that have already been successfully completed – especially in the countries of Latin America – are demonstrating that Siemens Nixdorf is also recognized as a specialist for innovative banking solutions beyond the borders of Europe.
It was this experience in Latin-style banking that prompted Banco de Moçambique to contract with Siemens Nixdorf to deploy a comprehensive automation project. Under this project, the first of its kind in Moçambique, leading-edge information technology is now being introduced in the country's key financial institutions. The project is being implemented in cooperation with software partner Soft3, a specialist in banking applications. With UNIX servers from Siemens Nixdorf as the platform, the project includes applications for automating all core segments of the banking business: from teller window operations to general ledger accounting.
And it fosters cooperation between two banks: Banco de Moçambique, the country's central bank, and Banco Comercial de Moçambique, the nation's largest commercial bank.

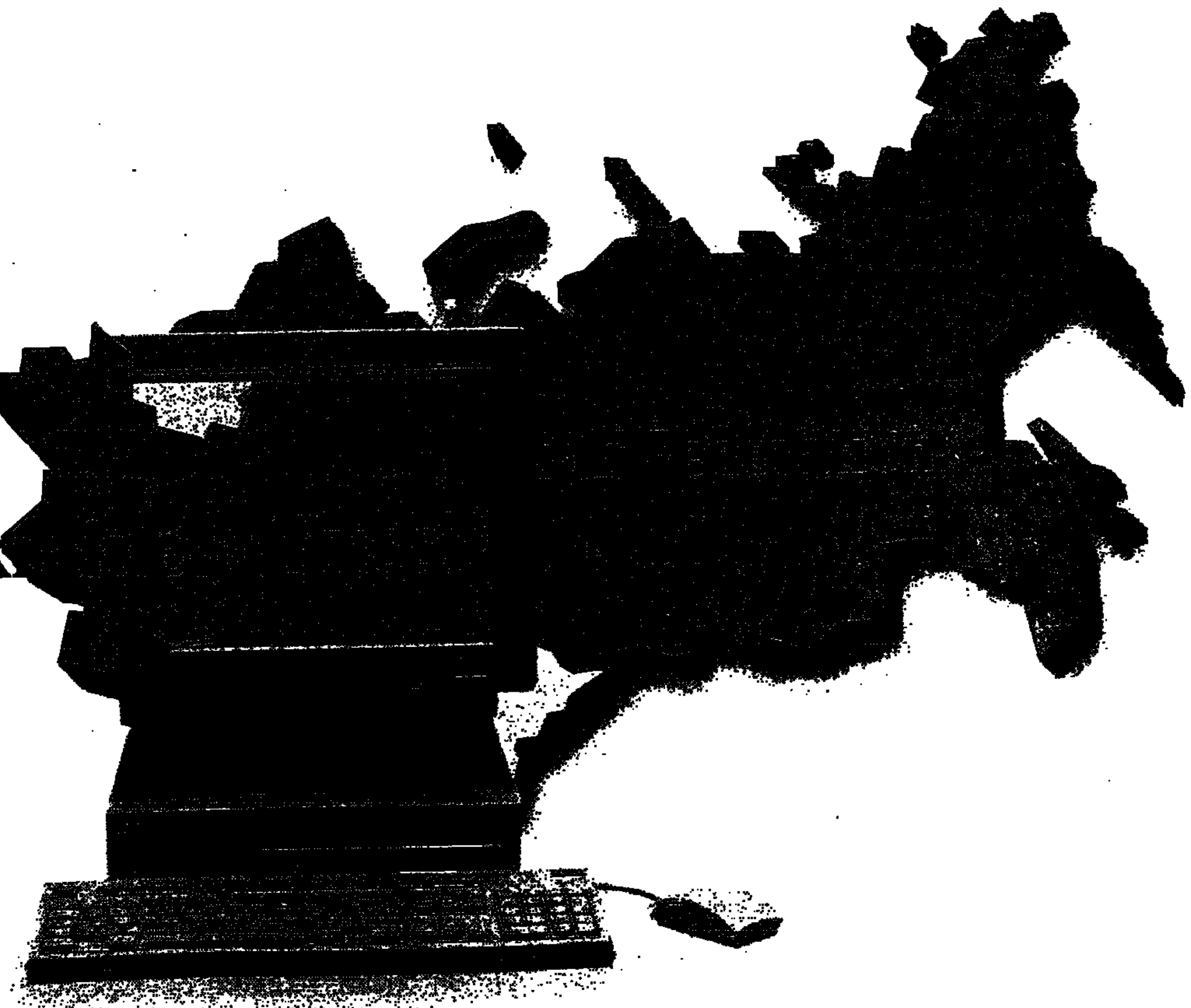
Walldorf/Paderborn: Storage Solution from Siemens Nixdorf protects SAP's valuable data assets.

Night in and night out, more than 2 terabytes of data – representing some 300,000 kilometers of letter-size pages – have to be backed up at SAP, the world's leading software house.
The solution that has now been supplied by Siemens Nixdorf assures the uninterrupted integrity and availability of SAP's most valuable assets: its steadily growing and constantly changing R/3 and R/2 software code, as well as its enterprise, test and development data.
The data backup concept developed at the Siemens Nixdorf Storage Solutions Competence Center serves as the foundation for the project deployed at SAP: it's one of the world's most complex – in terms of both the volumes of data to be backed up as well as the heterogeneous makeup of the server platforms and databases. What this means in plain language: five R/2 mainframes and over 100 R/3 database servers from all leading vendors.
One of the main reasons for choosing Siemens Nixdorf to supply the storage solution: its all-encompassing competency as a systems integrator and its proven track record of cooperation in R/3 projects throughout the world.

CIS partners and Siemens Nixdorf

Moscow/Kiev: Bureaucratization gives way to computerization.

Economic development is making giant strides within the Russian Federation. One of the key prerequisites: the privatization of real estate. This is an endeavor that's being handled by Roscomzem, the State Committee for Land Resources and Land Management. Its primary tasks include the development of new privatization legislation and the tabulation of millions of real estate parcels in the 86 Russian republics and oblasts.
A huge challenge – even for leading-edge information technology. Because each individual parcel of land not only has to be surveyed and registered, it also has to be precisely plotted on digital maps.
Roscomzem is now working together successfully with Siemens Nixdorf toward this objective. The heart of the contract consists of the SICAD geographical information system from Siemens Nixdorf. Plus additional hardware and equipment that ranges from workstations to surveying tools. Under the direction of Siemens Nixdorf, local partners out in the field, like Inter EWM of Moscow, are helping to assure smooth adaptation of the system and integration of the various processes.
In the Ukrainian Republic, which borders on the Russian Federation, the stage has also been set for progress: the Ukraine's Labor Service is developing into one of the most modern in the CIS. The reason: working together with numerous regional partners, Siemens Nixdorf has launched a comprehensive IT project. The objective is to install a consistent IT solution in all Labor Service offices, all regional administrations and the headquarter's location.
In implementing this major project, the Ukrainian Labor Service can build upon Siemens Nixdorf's long years of experience in deploying IT solutions at numerous European labor services. And upon its solid cooperation with various regional partners.
Siemens Nixdorf is serving as the general contractor for the entire project and coordinating the required hardware and software needs. Out in the field, these tasks are being handled by the partner contractors in the project.



The platform for this all-encompassing solution consists of the multifunctional SCOOL (Server Client Open Object for Labor Services) program developed by Siemens Nixdorf. It unites all of the activities needed in a labor service: placement, benefits and statistics.

TECHNOLOGY

More people use a handset every day but researchers are unable to say how safe they are, writes **Hugh Carnegy**

Mobile phones brain teaser

Put a mobile telephone to your ear and your head absorbs electro-magnetic microwaves from the antenna as part of the radio transmission that makes the phone function. The question being investigated by increasing numbers of research scientists is whether this radiation can damage your health.

Some scientists are sufficiently worried about the effects to recommend modified use of mobile handsets. A few even advise not using them at all. Most are more sanguine, insisting that no research to date suggests serious cause for concern.

But all agree that research has fallen well behind the explosive growth in use of mobile telephones worldwide, with subscriber numbers increasing at a rate of 50 per cent a year, reaching 86m worldwide in 1995.

There is a consensus – which includes, however grudgingly, the mobile manufacturers and operators – that more research is required before a definitive answer can be given on whether using mobile phones threatens to cause or exacerbate a range of conditions from brain cancer, through asthma, to headaches and nausea.

"We cannot draw any firm conclusions and say there is no health hazard," says Kjell Hansson Mild, a leading researcher in Sweden, where mobile telephone penetration has reached 25 per cent of the population – the highest in the world along with neighbouring Norway. "On the other hand, with the knowledge we have today, there is no immediate cause for concern. But in view of the increasing number of users it is important to find out what is really going on."

Digital handsets have been shown to interfere in some circumstances with heart pacemakers

Research to date has already established one possibly dangerous effect of mobile phones: digital handsets have been shown to interfere in some circumstances with heart pacemakers, prompting a warning to users from US and Canadian health authorities.

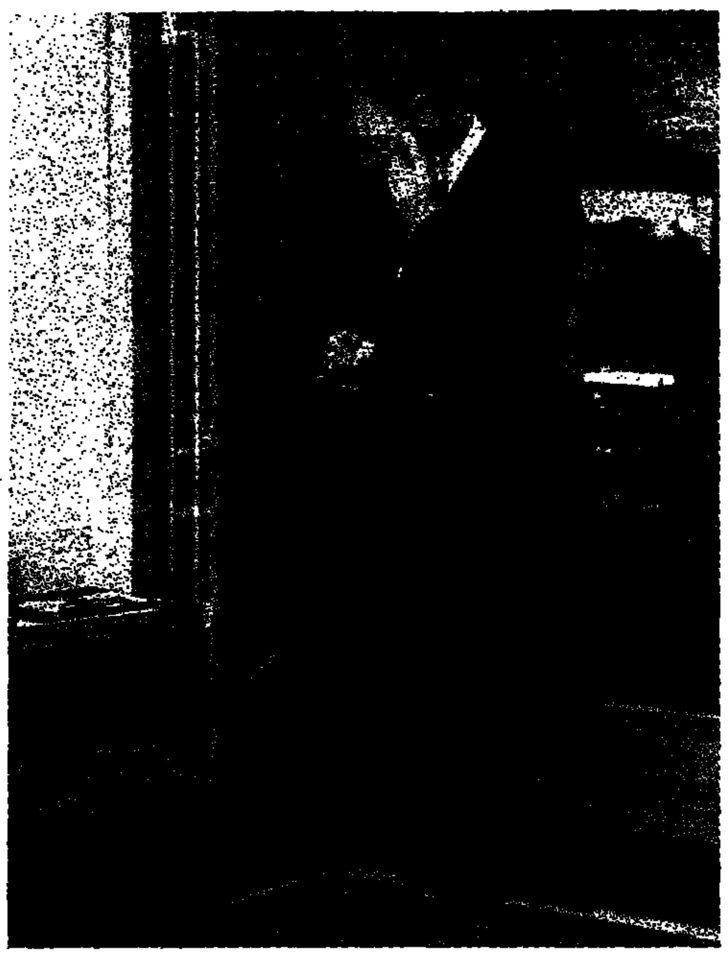
But the picture is much less clear when it comes to the biggest fear – that of possible links to cancer or other serious conditions such as Alzheimer's disease. Last year, a US court threw out a lawsuit by a man who claimed his wife had died of a brain tumour caused by using a mobile telephone, saying there was no scientific evidence to support his allegation.

Organisations such as the World Health Organisation stress the lack of evidence. But a rash of new studies testify to the doubts that still exist.

- Last month, concerns about mobile telephone growth prompted the WHO to launch a $3.3m (£2.1m), five-year project to study the possible health effects of all electric and magnetic fields from a range of devices, including microwave ovens and electric razors, as well as mobile phones.
- The European Commission has set up a 10-strong panel of experts – to which Hansson Mild belongs – to review the research done so far worldwide and to recommend further areas of investigation.
- In late June, the Wireless Technology Research group in the US, funded by the telecoms industry but with an independent structure, said it was funding a 2½-year $400,000 study by the American Health Foundation to examine the possible risk of brain cancer from cellular telephones.
- Sweden's Arbetslivsinstitutet, the state occupational health organisation, is conducting an epidemiological study of 10,000 mobile subscribers in Sweden and Norway on subjective disorders such as headaches, nausea, memory lapses, skin rashes and irritation attributed by some to mobile phone use.

The chief source of concern about mobile phones is the radio transmitter – the device's most vital component. Mobile phones work by using radio waves to link to radio base stations, which can be several kilometres away. The base stations in turn are linked to the switching stations which together make up a mobile network.

The radio in a mobile handset emits electro-magnetic signals, or microwaves, similar to those in a microwave oven. Although many modern electronic devices emit such radiation in varying strengths, few are held as close to the brain as a mobile phone. This has led to some alarmist headlines about mobile phones "cooking" the brain. In fact, the power levels used in a mobile phone, at around 1W or less, are tiny compared with a microwave oven operating at 600W or more – and not all the power is absorbed by the head when making a call.



Fergus Wilde

Few electronic devices are held as close to the brain as a mobile phone

Police and military around the world have used hand-held radio sets – often more powerful than modern mobile phones – for years. The output levels of mobile handsets are already operating within standards set by national and international authorities. The operators and manufacturers say there is no cause to suspect that mobile phones pose a danger.

"We have been studying this for as long as we have been making mobile phones – how the signals behave, how they penetrate different materials and how they are reflected," says Nokia, the Finnish group, which is the world's second-largest supplier of mobile handsets. "There is no evidence whatsoever of any damaging effects on users of mobile phones."

But independent researchers are more equivocal. Some have conducted experiments which suggest that the heating effect caused by microwave emissions in the brain can affect cells in a way that gives grounds for concern.

Prominent among these has been research at the University of Washington in Seattle which showed damage to the DNA in the brain cells of rats exposed to levels of microwave emissions similar to those from mobile phones. Such damage could possibly lead to the development of cancer or Alzheimer's. This was featured in a BBC television programme recently, which also cited similar work done at St Vincent's Hospital in Sydney, Australia, showing that microwave exposure could affect cells in a way that could exacerbate asthma.

"I have a mobile phone but now I use it only when absolutely essential," Peter French, president of the Australia and New Zealand Cellular Biology Society, told the BBC. "I switch ears if the call goes on longer than a minute or two."

In Europe, studies on the possible effect of microwave exposure on human cells from both base stations and handsets have been carried out at VITO, the Flemish Institute for Technology Research in Belgium. Luc Verschaeve, a member of the European Commission's group of experts who carried out the work, says VITO has seen no effect on DNA to suggest that exposure to mobile phones could be a direct cause of cancer development.

But, he says, there were "synergistic" effects in certain circumstances where the microwave exposure appeared to increase the potency of other chemical carcinogens in human blood cells. This happened when the cells were exposed for two hours to 1.6W per kilogramme of microwave radiation.

Verschaeve, however, is not unduly disturbed by his findings, which he says represent "more than a worst case situation" compared with normal mobile telephone use.

"I don't agree with statements that it is dangerous to use mobile phones," he says. "So far, I personally would not be alarmed. But we need more research to be sure."

The manufacturers may in any case produce a solution. They are striving to reduce the power output of mobile phones in order to increase the time they can be used without having to change or recharge the battery. Latest digital phone systems are also using higher radio frequencies, which penetrate less far into the body. Users worried about possible ill-effects can already buy an earpiece and microphone.

In the meantime, Hansson Mild draws a wry conclusion: "I think you are most likely to be injured from mobile phone use by crashing your car while talking and driving at the same time. But from a world health perspective we have to look into these other issues further."

Virus platform for gene project

Clive Cookson on clinical trials of a treatment for viral infections

Cantab Pharmaceuticals, the UK biotechnology company, announced yesterday the start of clinical trials of its disabled-virus technology, which could have great potential both for treating and preventing viral infections and as a delivery vehicle for gene therapy.

The Disc (Disabled Infectious Single Cycle) system produces a virus that activates a full immune response in its host but cannot spread from cell to cell.

Cantab and its collaborating scientists at Cambridge University are concentrating on the herpes virus, although the Disc approach is applicable in principle to many other viruses. By deleting a gene that is essential for replication (glycoprotein H) they have created a virus that can complete only one round of infection.

The company has received permission from the UK Medicines Control Agency to begin clinical trials of its Disc HSV product, a vaccine designed to treat and prevent genital herpes. It expects to receive approval from the US Food and Drug Administration in time to start a parallel trial in the US later this year.

Volunteers will be screened to discover whether they are "seropositive" for HSV-2, the virus that causes genital herpes – in other words, whether they are infected.

The UK trial will test Disc on subjects who are seropositive but not currently suffering symptoms of the disease, to see whether it can prevent future outbreaks of genital sores. The US trial will use seronegative subjects, to see whether it can prevent infection in the first place.

The initial Phase I trials, to investigate the product's safety and its ability to stimulate an immune response in different doses, will be followed by more extensive Phase II trials next year. These will measure its effectiveness at preventing herpes infection or disease.

Animal tests suggest that both effects can be achieved with remarkably small doses of Disc HSV – less than a millionth of a gramme of disabled virus.

Disc HSV could be an important product in its own right (Lehman Brothers analysts predict peak sales of more than $250m [£160m] a year). But Cantab executives are becoming more excited about Disc's potential as a "platform technology" for gene therapy – an application that they had not thought of when Disc was first announced in 1993.

"Within the past 12 months our research team has recognised the potential of Disc HSV as a safe and effective delivery system for introducing new genes into cells of the body," says Stephen Inglis, research director. "This discovery has led to the initiation of a whole series of product opportunities for Cantab in the areas of cancer and gene therapy. The clinical experience we gain from these Disc HSV trials will help enormously to speed them along."

The reason why Disc is looking promising for gene therapy is that other "vectors" used so far to deliver new genes into cells – such as genetically engineered viruses and liposomes (microscopic fatty particles) – seem to be ineffective and/or to cause side-effects.

The first clinical trial of Disc HSV for gene delivery is scheduled to start next year, says Paul Haycock, Cantab's chief executive. It will carry genes for "immunomodulator" proteins into cancer cells; these are designed to make the cells more visible to attack by the patient's immune system.

Cantab is negotiating collaborative agreements with several pharmaceutical companies to exploit Disc technology, and Haycock expects to announce at least one deal later this year. The only agreement so far is with Pfizer of the US, which is developing Disc-based veterinary vaccines for a range of animal diseases.

"It has become a biotech cliché to talk about platform technologies but we really do have one here," Haycock says. "The long-term potential of Disc is huge."

BUSINESSES FOR SALE

Claire Broughton 0171 873 3234 · Fax 0171 873 3064 · Karl Loynton 0171 873 4874

RECONDITIONED WOODWORKING MACHINERY BUSINESS

Located South West, close to motorways, ½ acre freehold ring fenced site. 10,000 ft showroom & works. Scope for further development. Suit overseas co. looking for UK base - overheads covered by existing "low key" activities.

Write to: Box B4625, Financial Times, One Southwark Bridge, London SE1 9HL.

Musical Instrument Mfr.
SOUTHEAST

- *Xint acquisition opportunity-strong cash flow!*
- Trademarked/brandnamed products
- Prestigious customer base
- Xint growth opportunities with underutilized facility
- Diverse product line w/xint line of guitars
- 1997 est. Sales $6.4MM, est. pretax $900K

USA 714-756-2200 x 7016
Ref. #88239

LAKE DISTRICT

14 self catering apartments or cottages within a complex of 3 attractive detached properties
Superbly situated in the centre of the National Park in attractive position yet convenient for shops, bars & restaurants. £132,600 estimated profits Y/E 28.2.97 owner operated. Vendor will also consider service agreement to create superb "hands off" investment.
£875,000 freehold complete
ROBERT BARRY & CO
(01423) 566362

CONCORD TEMPERATURE CONTROLS LIMITED

(In Administrative Receivership and Liquidation)

The business and assets are offered for sale by the joint administrative receivers:

- One of the UK's leading specialists in the design and installation of complex integrated building control systems
- Unrivalled expertise in computer based building management technology
- Trend Technology Centre
- 1995 Turnover £5m
- Freehold premises at Stourbridge, West Midlands, comprising office accommodation and full panel manufacturing facility

Interested parties should contact:
Philip Baldwin or Jeremy Meadows of Price Waterhouse, Birmingham.
Tel: 0121 200 3000. Fax: 0121 200 2902.

Price Waterhouse

This advertisement has been approved by Price Waterhouse, a firm authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

British Rail

The Sale of BR Research

British Railways Board proposes shortly to offer for sale BR Research, which operates as a commercial business unit within BR's Central Services division, providing consultancy, research, development, engineering testing and services for a wide range of railway customers in Great Britain and abroad. Services range from short term problem definition and resolution to longer term strategic research and licensing of technologies.

The Business

- Located in Derby, with a marketing office in Hong Kong.
- Its expertise covers the technologies needed to support railway systems including signalling, control and operating issues, vehicle structures, systems and dynamics, aerodynamics, acoustics, track and civil engineering matters.
- Diversified customer base.

Key Features

- An acknowledged leader in a wide spectrum of railway technologies with the ability to cover interfaces between them.
- Established export markets in Asia-Pacific and Europe with prospects for expansion.
- Turnover - 12 months to 31 March 1996 - £17.8m
- Employees (permanent establishment) at 15 July 1996 - 273

This advertisement is issued by British Railways Board and has been approved solely for the purpose of Section 57 of the Financial Services Act 1986, by West Merchant Bank Limited, a firm regulated by The Securities and Futures Authority.

WestMerchant
A member of the WestLB Group

West Merchant
Bank Limited

(In Receivership)

The Joint Receivers offer for sale the business and assets of Escom UK Limited, an established manufacturer and retailer of computers.

The business is controlled from Irvine, Scotland and Stansted, Essex and operates from 168 retail outlets nationwide generating an annual turnover in excess of £200 million.

Offers are invited for the business and assets comprising:

- 168 retail outlets;
- Administration and distribution centre;
- Experienced workforce of over 1,000 employees;
- Stock of approximately £25 million; and
- Motor vehicles, furniture, fixtures and fittings.

Further details are available from the Joint Receivers, Nick Dargan and Ralph Preece at Deloitte & Touche, Hill House, 1 Little New Street, London EC4A 3TR
Telephone: 0171 936 3000 Fax: 0171 583 8517.

Deloitte & Touche
Deloitte Touche Tohmatsu International

Authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business

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KPMG

Road Sign Manufacturer

Wolverhampton

The joint administrative receivers Ann Davies and Phil Wallace offer for sale the business and assets of Morelock Signs Limited:

- Manufactures road signs and ancillary products, supplying to contractors in public sector road building.
- Leasehold premises, close to M6 junction 10.
- 70 employees.
- Turnover c£5 million pa.
- BS5750 registered.

For further details contact Ann Davies at KPMG, 2 Cornwall Street, Birmingham B3 2DL. Tel: 0121-232 3000. Fax: 0121-232 3500.

KPMG Corporate Recovery

Housewares Distributor

London E15

The main activity of Heritage plc, Heritage Housewares Limited, Heritage Youngsley Limited, Heritage Boulevard Limited (All In Receivership) is distribution of housewares to large UK multiple retailers and independents.

- Freehold warehouse/office premises - 37,000 sq. ft.
- Annual turnover £10m
- Blue chip High Street retail customers
- 50 employees
- Heritage Brand Name

For further details please contact the Joint Administrative Receivers, Scott Barnes and Simon Morris, Grant Thornton, Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.
Tel: 0171 383 5100 Fax: 0171 383 4077

Grant Thornton

The U.K. member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

PKF worldwide

CARLSBRO

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The Joint Administrative Receivers, Martin Lloyd and Shaun Adams, offer for sale the business and assets of Carlsbro Electronics Limited established in the 1960's.

- 29,000 sq ft leasehold premises, Kirkby in Ashfield, Notts (Freehold available)
- Quality customer list, 60% export market
- Complete manufacturing facility including wood mill, metal shop and PCB production line
- CAD design equipment
- Experienced workforce
- Strong order book

Interested parties please contact Martin Lloyd or Shaun Adams at Pannell Kerr Forster, Regent House, Clinton Avenue, Nottingham NG5 1AZ
Tel: 0115 960 8171 Fax: 0115 960 3665

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FOR SALE

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FOR SALE

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Write to: Box B4631, Financial Times, One Southwark Bridge, London SE1 9HL

KPMG

Italian Food & Wine Wholesalers

Gateshead, Tyne & Wear

Business offered for sale by the Joint Administrative Receivers of Franco (Wholesale) Ltd.

- Turnover £1 million pa.
- Large customer base.
- Leasehold premises.

For further details please contact Tony Thompson at KPMG, 20 Farringdon St, London EC4A 4PP. Tel: 0171 311 1000. Fax: 0171 311 3607.

KPMG Corporate Recovery

LEONARD CURTIS

BY ORDER OF THE JOINT ADMINISTRATIVE RECEIVERS D. SWADEN FCA & C. MACMILLAN FCA
IN THE MATTER OF
ASTBURY SAVILLE LTD

Offers are invited for the assets and business of the above lampshade manufacturers located in Congleton, Cheshire

- Annual turnover approx £2 million pa
- Blue Chip customer base
- Factory shop attached selling to the public

Enquiries should be addressed to Charles MacMillan FCA
Leonard Curtis & Partners, Chartered Accountants
Peter House, Oxford Street, Manchester M1 5AB Tel: 0161 236 1955 Fax: 0161 228 1929

BUSINESS FOR SALE

Well established, profitable stainless steel processor

- Turnover in excess of £2.5 million;
- Management willing to stay.

Interested parties, please write to Box B4641, Financial Times, One Southwark Bridge, London SE1 9HL

FOOD MANUFACTURING CAPABILITY REQUIRED BY A SUBSTANTIAL EUROPEAN GROUP

- Modern biscuit baking facility with building of over 400 ft in length
- Must meet food hygiene requirements
- Surplus capacity an advantage
- Would consider business acquisition, purchase of facility or formation of strategic alliance
- Present product mix/profitability or location in Europe not necessarily important.

Interested parties should write to:
Box B4577, Financial Times, One Southwark Bridge, London SE1 9HL

Taplow House Hotel, Nr Maidenhead

Peter Copp and Tony Supperstone of BDO Stoy Hayward, the joint Administrative Receivers of Cambrianlake Limited, offer for sale the freehold property, business and assets of Taplow House Hotel.

A Prestigious Country House Hotel and Conference Centre.

- A most imposing property in a lovely country position close to Slough, Windsor and M4 motorway
- 30 well appointed letting bedrooms (all en/s)
- Elegant public accommodation including Restaurant (60), Conference and Function rooms
- Attractive mature grounds
- Turnover exceeding £1.133m (y/e 31/3/96)

For further information please contact: Richard Woodhead at Robert Barry & Co 7 Upper Grosvenor Street Mayfair, London W1X 9PA
Tel: 0171 491 3026 Fax: 0171 629 9373

BDO
BDO Stoy Hayward Corporate Recovery and Insolvency

For Sale
Art Photography Magazine

Profitable established high quality Glossy title. Sales/Subs U.K. + Overseas. Tremendous Potential for this niche market publication. Erotic and Classic content.

Principals only. Box B4638, Financial Times, One Southwark Bridge, London SE1 9HL

CAR AUDIO RETAILERS

Based in the Northwest. Long established £1m T/O. Excellent reputation. Superbly equipped showroom and workshops.

Write to Box B4634, Financial Times, One Southwark Bridge, London SE1 9HL

CHRISTIE & Co
SURVEYORS, VALUERS & AGENTS

WORCESTERSHIRE

BY DIRECTION OF D.K. DOGGINS & J.A. TALBOT OF ARTHUR ANDERSEN
THE JOINT ADMINISTRATIVE RECEIVERS OF
THE HEATH HOTEL, WRIBBENHALL, BEWDLEY

- An attractive Hotel and separate leisure centre set in approximately 20 acres of landscaped grounds.
- 45 Three Star standard en suite letting bedrooms, conference & banqueting facilities (12-300).
- Leisure facilities including swimming pool, gymnasium, 2 outdoor tennis courts.
- Close to several tourist attractions including The Severn Valley Steam Railway and West Midlands Safari and Leisure Park.
- Turnover to 17.6.96 anticipated to be circa £1.6 million net of VAT.

OFFERS IN THE REGION OF £2,750,000 FREEHOLD
Contact Jeremy Hill *Ref 58/FT42261/R*

BIRMINGHAM OFFICE 0121 456 1222

RECRUITMENT AGENCY

Highly profitable circa £1m T/O. Market leader in high tech niche. South East location. Seeks merger discussions with larger business. Objective - To accelerate in media/communication technology.

Write to Box B4633, Financial Times, One Southwark Bridge, London SE1 9HL

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Luxury restaurant cruiser, sole trading rights. Moored in gardens of Royal Shakespeare Theatre. T/O £200,000 gross profit 63%. Potential to expand.
Price region £285,000
Contact Nick Smith
Christie & Co. Tel: 0121 4561222

Major Car Body Repair Facility
Freehold site of approx. 1/2 acre - Essex A12

Modern well equipt Workshop, 3 Spraybake Ovens, Offices and Petrol Forecourt.
Freehold Property and Profitable Business for sale as a going concern.
Workshop Turnover circa £540,000 Full Local Authority License.
Offers in excess of £450,000

For further details, please contact:-
Michael J Lodge & Co: Tel: 01992 471472 Fax: 01992 471474

LIQUIDATIONS AND RECEIVERSHIPS

Every week every company that has gone into liquidation or receivership what they did and who the liquidator or receiver is.

Tel 01652 680689 or Fax 01652 680867 For further details.

The Joint Administrators, David Emanuel Merton Mond, FCA, FCCA, and David Bottomley, FCA, FCCA offer for sale the business, assets and goodwill of

M. J. (SYSTEMS) LIMITED
T/A Eurodesign

- The company operates as manufacturers and installers of double glazing and conservatories
- Current order book of approximately £650,000
- Budgeted turnover of £3.5 million per annum
- 17,000 sq.ft. (approximately) freehold property at Dalton, Nr. Thirsk, North Yorkshire
- 4 leasehold showrooms in Yorkshire and North East

For further information please contact:
David E.M. Mond, FCA, FCCA,
Hodgsons,
George House
48 George Street,
Manchester,
M1 4HF
Tel: 0161 228 7444
Fax: 0161 228 7356

HODGSONS
CHARTERED ACCOUNTANTS

KPMG

Strand Leathergoods Ltd
Fine English Leatherware Ltd
The London Organiser Company Ltd

The joint administrative receivers offer for sale the business and assets of the above companies.
Principle features include:

- Manufacturer of quality leathergoods.
- Extensive product range including 'The London Organiser' personal organiser range.
- Skilled work force.
- Combined turnover of approx. £3.2 million per annum.
- Based in Walsall, West Midlands.
- Leasehold premises.

For further details contact John Wheatley, KPMG, 2 Cornwall Street, Birmingham B3 2DL. Tel: 0121 232 3000. Fax: 0121 232 3500.

KPMG Corporate Recovery

Kitchen Manufacturer

Up market. Long established. Consistently profitable. Modern freehold premises. Ongoing management. Retirement sale. Southern England.

Write to: Box B4632, Financial Times, One Southwark Bridge, London SE1 9HL

Prime 70 Bed Nursing Home Site
with full planning permission in Central London

FOR SALE
Development funding available.

Write to: Box B4628, Financial Times, One Southwark Bridge, London SE1 9HL

CHILDRENS DAY NURSERY

(Reg'D 35): Altrincham area: prosperous community, WT £3,200, open 5 days, further potential, excellent property with private accom, BUS/PROP £575,000, Ref: 2991.

HARVEY SILVER HODGKINSON
0161 833 2000

FOR SALE

Importer & Distributor of Decorative Giftware Products
Midlands based with t/o of £600k
Gross margin c.45%
Profitable. Retirement Sale

Write to Box B4635, Financial Times, One Southwark Bridge, London SE1 9HL

WELSH NATURAL MINERAL WATER COMPANY

High profile with established distribution in England and Wales and recently opened export markets. Excellent prospects for assisted expansion and growth.

Ben O'Connor, 216 London Road, Burpham, Guildford, Surrey GU4 7JS

Amusement Arcade Business

10 Freehold & Leasehold sites in London.
Turnover £1,600,000.
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Please contact Tony White
LORDSVALE ESTATE SERVICES LTD
Tel: 0181 335 3012
Fax: 0181 330 7720

SELL YOUR BUSINESS PAY NO TAX AND KEEP CONTROL

Capital Strategies arranges exits for shareholders in closely controlled private companies with turnover over £2 million. We have developed techniques to eliminate CGT on a sale. We introduce new finance and new management if needed. And if your exit is phased, you can keep control. We get paid on results. So without commitment contact one of our investment directors for a confidential discussion.

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* 21.2HA (52.3 Acres) Leisure Development Site *
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* Planning Consent for Marina, Hotel, Holiday Chalets and Lakes *
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For Sale

Established Exhibition/Shopfitting Company

£650,000 turnover
ISO 9002 Accreditation imminent
15 minutes from NEC
For more information

Write to Box B4639, Financial Times, One Southwark Bridge, London SE1 9HL.

600+ LIVE BUSINESSES FOR SALE - MONTHLY
Turnovers £100k - £100M
BusinesstoBusiness Bulletin
Phone: 0171 434 9992

Torquay Devon

Convenience store with off license - £1000 sq ft 3 double bedroom s/c flat.
Turnover £300,000.
High Profit
Retirement Sale, Reduced Price
Freehold £249,000
Tel No. 01803 324098

ÁPV RT.
HUNGARIAN PRIVATISATION
AND STATE HOLDING COMPANY

TENDER ANNOUNCEMENT

1. The Állami Privatizációs és Vagyonkezelő Rt. [Hungarian Privatisation and State Holding Company] (hereinafter referred to as „the Announcer" or „ÁPV Rt.") (1133 Budapest, Újpesti rakpart 31–33) is announcing an open single-round tender for the purchase of shares in the state-owned Ganzeg West Hungary Rt. (hereinafter referred to as „the Company"), which is registered under number Cg. 20-10-040063/31 and has its headquarters at 8901 Zalaegerszeg, Balatoni út 11.

The Company's issued share capital amounts to HUF 812,000,000.

The Company's capital net worth is HUF 540,758,000.

Shares in the Company are distributed in the following manner.

ÁPV Rt. HUF 522,000,000 (64.3%)

Hungarian State Treasury HUF 290,000,000 (35.7%)

Bids can be submitted for the share package that constitutes 90% of the issued share capital (a 54.3% ownership interest held by ÁPV Rt. and the 35.7% held by the Hungarian State Treasury).

2. Once the tender has been concluded, ÁPV Rt. will, in accordance with law, offer the Company's employees a share package representing 10% of the issued share capital with a nominal value of HUF 81,200,000 (eighty-one million two hundred thousand forints). The employees will be entitled to exercise an employee discount of up to 50% of the price quoted in the accepted bid. Employees will be entitled to purchase shares within sixty (60) days of the day on which the winning bid is announced.

3. Bids must be in Hungarian in five counterparts, and they must be submitted in unmarked envelopes at the address indicated. Foreign bidders are entitled to submit their bids in English as well as Hungarian, but the Hungarian counterpart will be considered authoritative.

4. Bids must be presented in person or by proxy. They must be submitted in the presence of a notary public at the designated time. Proxies must prove their authorization to represent their principals and the extent of such authorization with notarized documents or fully enforceable private documents. The notary public will inspect the validity of these documents.

The following text must appear on the envelope:

„PÁLYÁZAT Ganzeg West Hungary Rt."

5. Bidders must indicate the original counterpart by the word „EREDETI." Should bidders fail to do this, the Announcer will choose one of the submitted copies, which will thereafter serve as the original counterpart. Should there be any discrepancy between the counterparts, the contents of the bid designated as the original will be authoritative.

6. Bids must be submitted

between 12:00 noon and 2:00 p.m. on 16 September 1996.

Bids must be submitted at

Állami Privatizációs és Vagyonkezelő Rt.
1133 Budapest, Újpesti rakpart 31–33.
Eighth Floor
Room 804

7. The bids' financial and other conditions and the method and schedule of payment

A minimum of 60% of the purchase price must be paid in cash. The remaining part of the purchase price must be paid in cash or in the following manner.

Bidders are entitled to bid for no more than 40% of the purchase price with compensation notes or E-credit. Foreigners can only use compensation notes that have been issued directly to them. The Announcer considers compensation notes at 174.2%.

E-credit may be used for up to half of the bid price, but no more than HUF 50 million. The self-financing part of the E-credit cannot be included in the part of the purchase price that is to be paid in cash or in the part that is to be paid in compensation notes.

Foreigners are entitled to make bids in those convertible foreign currencies accepted by the National Bank of Hungary. The Announcer will consider foreign currency at the National Bank of Hungary's official middle exchange rate that is valid at the time of submission.

The detailed tender announcement contains the other conditions and requirements of sale.

8. It is a fundamental condition for participation in the tender that bidders commit themselves to their bids for a period of ninety (90) days following the submission deadline.

9. Bidders must remit or transfer HUF 50,000,000 as proof of their intent to purchase to the account that ÁPV Rt. has opened at Magyar Külkereskedelmi Bank for receiving earnest money, which is specified in the detailed tender announcement before the submission deadline.

The Announcer will manage this amount in accordance with the regulations pertaining to earnest money.

10. The Announcer will make the final decision after evaluation. The Announcer retains the right to declare the tender unsuccessful.

11. The detailed tender announcement and the detailed information brochure prepared by the Company, which contains the economic data necessary for making bids, constitute inalienable parts of the present tender announcement.

The purchase of the bid materials, which contain the detailed tender announcement, for HUF 100,000 + 25% VAT is an indispensable condition for submitting bids. A confidentiality statement must be signed in order to receive this material. Bidders (or individual members of consortiums) must purchase the bid materials directly from the Announcer either in person or by proxy. The Announcer will verify the purchase of the bid materials by issuing a statement of verification.

Proxies must prove their authorization to represent their principals and the extent of such authorization with notarized documents or fully enforceable private documents, which will be inspected by the Customer Service Office.

12. Information on the Company can be obtained from the following persons once the tender has been announced.

KISVÁRI László
Ganzeg West Hungary Rt.
8901 Zalaegerszeg, Balatoni út 11
Tel: 06-92-311-156 Fax: 06-92-311-155

BERECZKY Géza
Portfolio Manager
Állami Privatizációs és Vagyonkezelő
Részvénytársaság
1133 Budapest, Újpesti rakpart 31–33.
Tel: 269-8600, ext. 2657

UNDERGROUND

Proposed sale of railway workshop businesses at Acton

London Underground Limited (LUL) invites expressions of interest in the sale of its Railway Engineering Workshop (REW) and Train Modification Unit (TMU) businesses. REW and TMU are both located in premises, which will be leased to them, at London Transport's Acton Works, a site of some 30 acres in West London. The TMU premises are connected to the Underground network through the Piccadilly and District lines, and are adjacent to a Railtrack freight line.

The businesses

REW

- Undertakes the overhaul, heavy maintenance and testing of a range of rolling stock components and also signalling and electronic equipment used at tracksides and stations throughout the LUL network.
- Equipment overhauled includes traction motors, compressors, motor alternators and generators, electrical and mechanical sub-assemblies, and wheelsets.
- Comprises a modern, purpose built workshop fully equipped with overhead lifting equipment together with office and canteen facilities.
- Will have medium-term contracts for the overhaul of LUL equipment.

TMU

- Located in separate building. TMU undertakes the modification of LUL rolling stock, involving a range of safety and engineering modifications, and the refurbishment of bogies.
- Will have contracts for modification programmes for LUL rolling stock over a 2-year period.

The opportunity

A significant opportunity to acquire rail maintenance and repair businesses with the potential to serve train operators on both the Railtrack and Underground networks.

Financial information for year ended 31 March 1996

Turnover £28.7m (REW: £18.4m - TMU: £10.3m)
Permanent employees at year end 337 (REW: 242 - TMU: 95)

To register an interest in purchasing the businesses contact:

John Nuttall
West Merchant Bank Limited
33-36 Gracechurch Street
London EC3V 0AX
Telephone: +44 171 623 8711
Fax: +44 171 626 5262

Interest should be registered as soon as possible, but no later than 5 August 1996

This advertisement is issued by London Underground Limited and has been approved solely for the purpose of Section 57 of the Financial Services Act 1986 by West Merchant Bank Limited, a company regulated by The Securities & Futures Authority.

ÁPV RT.
HUNGARIAN PRIVATISATION
AND STATE HOLDING COMPANY

TENDER NOTICE

The Hungarian Privatisation and State Holding Company (Állami Privatizációs és Vagyonkezelő Részvénytársaság [ÁPV Rt.], 1133 Budapest, Újpesti rkp. 31–33) does hereby inform the interested parties of the upcoming tender announcement for the sale of shares in the recently incorporated Recski Ércbányák Rt. (Recsk Ore Mines Co., former Recski Ércbánya Vállalat), which is fully owned by the state.

Tenders will be invited for a 90% share package in Recski Ércbányák Rt. The remaining 10% will be offered to the employees following the sale. In their bids, investors must assume responsibility for buying the shares that will not be subscribed by the employees.

Interested parties can receive the Information Memorandum concerning the ore deposits in Recsk and the company's proprietary and legal positions by telefax from the Customer Service Office (fax no.: 269-8991) or in person at the Hungarian Privatisation and State Holding Company's Customer Service Office 1133 Budapest, Újpesti rkp. 31–33. between 8:00 a.m. and 4:00 p.m. on business days as of 18 July 1996.

LEGAL NOTICES

IN THE MATTER OF
SONS LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986

To Advertise Your Legal Notices

Please contact
Melanie Miles on
Tel: +44 0171 873 3308
Fax: +44 0171 873 3064

HM PRISON SERVICE

HM PRISON SERVICE AGENCY PROJECT QUANTUM

OJEC NOTICE No 96/S 125-72760/EN 2.7.96
REQUEST FOR EXPRESSIONS OF INTEREST

1. The Home Office Prison Service has initiated the Quantum project to pursue its requirement to procure business services (which may include personnel, finance, inmates management and healthcare information for inmates) to support the administration, management, operation and policy function of its prisons (currently approx 130) and headquarters. The Prison Service anticipates the transfer and exploitation of current services including IT and its infrastructure to one or more service providers, following which it is anticipated that the service provider(s) will be responsible for the design, build, finance, management and operation of the services and their supporting negotiated procedure a framework agreement or agreements to call off services from one or more service providers.
2. Delivery of the services will be to Prison Service premises and at various other locations throughout England and Wales and various Home Office premises throughout the United Kingdom.
3. The Prison Service reserves the right to procure the services in a single lot, or to divide the services into one or more lots on a geographic or other basis. However, if the services are divided into lots, service providers must be able to provide all of the services specified above for each lot.
4. Variant bids may be permitted.
5. The duration of the contract or time limits for completion of the service is up to 10 years from completion of implementation.
6. No special legal form is required in the case of group bidders but one member in any group of service providers may be required to accept prim contractorship.
7. The final date for requests to participate: 25 July 1996.
8. Requirements for deposits or guarantees, if applicable, will be stated in contract documentation.
9. All service providers who respond to this Notice will, on or after 26 July 1996, be issued a business prospectus setting out further information about the requirement, and a questionnaire replies to which will be required by 26 August 1996.
10. This requirement is considered suitable for the application of the UK Government's Private Finance Initiative. It is intended to hold a Briefing Conference in London in early August to explain the project more fully. If you wish to attend the Conference and/or receive the Conference briefing material please fax your name and address, stating how many you wish to attend, if applicable, as places will be limited, to Beverley Jeffares, fax number 0171 217 6247.

The Prison Service reserves the right not to award any contracts in pursuit of this requirement.

BUSINESS AND THE LAW

Ban on UK beef not lifted


EUROPEAN COURT

The European Court of Justice has ruled against the UK's attempt to have the beef ban lifted pending the full hearing of its case against the Commission.

The UK brought proceedings against the Commission for the annulment of its decision on March 27 1996 to ban UK beef and its derivatives from being exported outside the country. The Commission decision covered live animals, their meat once slaughtered, derivatives and mammalian derived meat and bonemeal. It prohibited their export not only to other member states but also to all other third countries. At the same time as bringing the proceedings for annulment, the UK also sought interim measures for the suspension of the ban.

The Commission had imposed the ban in the light of certain developments linking BSE with Creutzfeldt-Jakob disease (CJD). A week before the decision, the independent scientific body in the UK dealing with BSE published a report in which it was stated that although there was no direct evidence of a link on current data, new cases of CJD in the UK were most likely to be linked to exposure to BSE before the introduction of a specified bovine offal ban in 1989. In the light of that report, the UK banned the sale of mammalian meat and bonemeal or its use in feed for any livestock as well as prohibiting the sale of meat from cattle over 30 months for human consumption. At the same time, some member states and other third countries took measures banning imports of cattle or beef from the UK. The European Scientific Veterinary Committee could not confirm whether or not there was a causal link between BSE and CJD, but in the light of the risks that existed, recommended that certain measures relating to the preparation of meat be implemented.

After the Commission decision had come into effect, international experts met within the aegis of the World Health Organisation and found that although there was no proven link, the most likely explanation for the recent CJD cases in the UK was exposure of the UK population to BSE.

In its judgment, the Court first reiterated the conditions for the grant of interim relief. First, it was necessary to establish a prima facie case for the suspension of the ban. Then it was necessary to show that such an order was urgent in that it had to be made to avoid serious and irreparable harm to the applicant's interests. Finally, the court had to balance the interests at stake. Insofar as the prima facie case was concerned, the Court appeared to find only one of the UK's submissions capable of being founded. That submission related to third country exports. The UK argued that the Commission's decision had no legal basis as the directives pursuant to which it had been adopted concerned only intra-Community trade, not third country trade. The Commission argued that the extension of the ban across the world was necessary to ensure effectiveness.

The Court did not determine the issue; it simply found that the submission was not unfounded. This led the Court to consider the issue of serious and irreparable harm. On this, it was pointed out that the UK beef market was an important one and that those involved were seriously affected by the export ban. The Court found that it was reasonable to suppose that severe damage had been caused in the UK and that harm might be irreparable. However, the Court found that the principal cause of that damage was uncertain and had not been shown to stem from the Commission decision in question. The drop in demand for beef had been provoked by news of the link between CJD and BSE and countries had taken unilateral measures against UK beef before the Commission decision had imposed the worldwide ban. The Court found that even if it had found that the Commission decision led to serious and irreparable harm, still on the balance of interests, it would not have suspended operation of the ban. The Court relied on the fact that CJD was fatal with no cure. Given the most likely explanation of the disease was BSE exposure, the Court found there could be no hesitation in refusing the UK application.

United Kingdom v Commission ECJ FC July 12 1996

BRICK COURT CHAMBERS
BRUSSELS

Cross-border dilemma

EU action over Helms-Burton would be a mistake, says Christopher Wall

Reacting sharply to the Cuban Liberty and Democratic Solidarity (Helms-Burton) Act, as well as the possible enactment of sanctions against foreigners who invest in Iran and Libya or who trade with Libya, the European Union has initiated consultations prior to taking action against the US at the World Trade Organisation (WTO). Such an action would be a mistake. Even if the EU wins the case, it could turn out to be a Pyrrhic victory.

Among other things, Title III of Helms-Burton allows Americans to sue foreign companies that "traffic" in confiscated Cuban property, and Title IV permits the US government to exclude from the US executives of such companies. Many European companies have investments in Cuba or are involved in businesses that may benefit from confiscated Cuban property.

Mr Bill Clinton, the US president, must decide by tomorrow 15, whether to waive Title III for six months, delaying the time for the filing of claims in the US courts. Title IV however, is is already in effect. Several foreign executives have been notified that they will not be able to enter the US.

The proposed Iran-Libya legislation would allow trade sanctions against companies that invest in the development of petroleum resources in these countries.

The bill passed by the House of Representatives would also impose sanctions on foreign companies that export to Libya products used in the development of petroleum resources, or that contribute to Libya's acquisition of chemical or other weapons or its ability to maintain its aviation capabilities.

Sanctions could include prohibiting imports of products into the US or denying the right to bid on government contracts.

At a recent OECD ministerial meeting in Paris, Sir Leon Brittan, the EU's external relations commissioner, denounced these US measures as an unjustified extension of legal jurisdiction beyond US borders.

The EU's frustration is understandable and is no doubt fed by the failure of the US to secure the agreement of its allies on a common policy to deal with Cuba and Iran. The Clinton administration has been notably unsuccessful in providing leadership for coherent multilateral initiatives, and the president's vacillations, first opposing and then approving the measure, have allowed Congress to back him into a political corner. But there are other ways to deal with the problem than taking the dispute to the WTO.

Extraterritoriality has been a part of US law for years. The "effects" doctrine has always had the potential for mischief. Under the doctrine, any conduct having a direct, substantial and reasonably foreseeable effect on US commerce is deemed to be subject to US jurisdiction.

But it has rarely, if ever, been applied purely, and has been leavened with other jurisdictional theories, such as nationality, territoriality or the protection of state interests. US courts, too, have sought to balance the potential for conflict with another state's laws by reference to comity. Under principles of international comity, US law would not be applied extraterritorially to foreign conduct if the balance of foreign interests in exercising jurisdiction outweighed US interests.

The EU and US have generally learned to live with each other's differing views of extraterritoriality. A host of US laws regulate activity outside US borders, including antitrust, securities, insolvency and money laundering.

The EU generally accepts this jurisdiction, and in some cases has agreed to cooperate in the regulation of transactions or has agreed to provide enforcement assistance.

The US, for its part, has moderated the extraterritorial reach of its sanctions since 1982 when it sought to impose penalties on foreign companies that shipped products for the construction of a Soviet gas pipeline.

And unlike older regulations imposing sanctions against Cuba and North Korea, more recent sanctions against Libya and Iraq do not extend to foreign incorporated subsidiaries of US companies.

Blocking statutes and other national measures, such as the 1980 British Protection of Trading Interests Act, as well as active diplomacy, helped soften the US position. Blocking statutes have been used for a variety of purposes. Some have made it illegal for corporations to disclose information in response to foreign judicial proceedings. Others have "clawback" provisions allowing a company to recover in its home country's courts damages paid in another country under an extraterritorial claim.

Canada adopted its Foreign Extraterritorial Measures Act in 1992 specifically in response to the Cuban Democracy Act in the US. This prohibits Canadian corporations from complying with the Cuban Assets Control Regulations. This measure was strengthened in January, anticipating Helms-Burton. However, since 1992 Canadian subsidiaries of US companies have presumably been complying with local law, placing their parent companies in violation of US law. Yet the US has not brought any legal action against US companies in these circumstances.

The Uruguay Round agreements creating the WTO are not comprehensive, and do not provide a remedy for all disputes affecting international commerce.

Helms-Burton deals with investment and claims to confiscated property. It does not affect trade in goods, at least in a direct way.

Perhaps a case could be made under the new General Agreement on Trade in Services that Title IV of Helms-Burton denies access to the US market to EU service providers, but this would be a new and untested theory.

It would be difficult to argue, however, that Title III denied national treatment to EU investors in the US since the investment affected would be in Cuba, and the right to sue would be available to all investors in the US who have Cuban claims.

Whatever the basis for the EU challenge, the US response will be to invoke "national security". This provides a general exception from Gatt obligations. The scope of this exception has never been fully tested and can be quite large.

A WTO dispute panel might well agree with the US that a country has broad authority to define its own national security interests. That could embolden the US and other countries to enact other far-reaching extraterritorial measures, defeating the EU's purpose in bringing the WTO action.

Even if the EU wins, the US would probably ignore a finding that a WTO panel has the right to tell the US what its national security interests are. The EU's consequent right to retaliate would be only symbolic because the trade remedy that might be authorised, such as the withdrawal of trade benefits of equal value, would be difficult if not impossible to quantify.

More importantly, the EU could risk damage to the WTO's credibility by forcing the case. US support for the WTO is already weak, and an EU victory could weaken US support even further. Indeed, in a presidential election year, it could be enough to provoke the US into withdrawing. Many in the US believe the EU should weigh these considerations before risking the future of the world trading system.

The author is a partner of Winthrop Stimson Putnam & Roberts, the US international law firm.

LEGAL BRIEFS

Multi-party actions urged for Scotland

Procedures to allow multi-party actions should be introduced into the legal system in Scotland, the Scottish Law Commission has recommended.

There is now no Scottish procedure by which a single court action can be brought to resolve legal issues common to a group of people in cases such as illnesses caused by defective drugs.

The commission proposes allowing group actions in such cases when the Court of Session considers such a procedure preferable to the existing system. It admits that multi-party litigation is time-consuming and expensive and might only be appropriate in a limited number of cases.

Legal aid would be the most suitable means of financing such actions, the commission recommends.

Cost of fraud

Fraud is costing the European insurance industry Ecu8bn a year or two per cent of total premium income, the Comité Européen des Assurances (CEA) has estimated.

Greater co-ordination within the industry is seen as the best means of tackling fraud rather than changes to the EU legislation, it said.

Remedies include stricter verification of underwriting and a shift to compensation in kind rather than cash, the CEA said.

New judge

Mr Justice Colman has been appointed as the new judge in charge of the High Court's Commercial list in place of Mr Justice Waller, taking over on October 1. Mr Justice Morison had been appointed as the next president of the Employment Appeal Tribunal, taking over from Mr Justice Mummery.

INTERNATIONAL PEOPLE

Muscat hops across to Fairfax

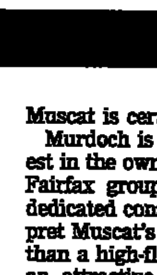
When Robert Muscat, the new chief executive of John Fairfax Holdings in Sydney, takes up his position on August 1, it may take him time to convince the more suspicious of his new colleagues that he is not a mole for the opposition – Rupert Murdoch's News Limited.

Muscat, 48, spent 28 years in Murdoch's stable. His progress through the ranks was rapid: by the age of 28 he was production manager of the company's Sydney operations. In 1980, aged 32, he was appointed general manager of News Limited, and became group general manager for newspapers in 1987. But last year his path to the top bumped into the appointment of Lachlan Murdoch, one of Rupert Murdoch's sons, as deputy to the chief executive – placing Muscat in third place as chief operating officer.

The pool of possible candidates for the top job at Fairfax was small. The unsuccessful result of choosing a non-newspaper man – Bob Mansfield, the former head of Optus Communications, quit after less than five months – seems to have convinced Fairfax that it needed an industry insider; Muscat is certainly well qualified.

Murdoch is known to take an interest in the ownership and future of the Fairfax group. But it would take a dedicated conspiracy theorist to interpret Muscat's move as anything more than a high-flying manager taking up an attractive opportunity to further his own interests, not those of his previous employer. *Bethan Hutton*

Deutsche Post top job



Some raised eyebrows greeted the choice of Josef Hattig (pictured) as the new head of the supervisory board of Deutsche Post, the German postal service. For Hattig, 65. who takes over today, has for the past 24 years been running Becks, the lucrative Bremen-based brewery. More successfully than any of its German competitors, Becks has marketed its *pils* in bars all over the world. Now he must focus on the considerably less glamorous task of readying Deutsche Post for privatisation, sometime around 2000.

Other candidates were apparently considered for the job, including some who had more experience dealing with politicians and the bureaucrats who are clambering all over Deutsche Post ahead of its listing.

Hattig has been developing some of that experience in recent years, but only in Bremen, the small, heavily indebted north German city statelet where he has been trying to instil some proper management skills. *Michael Lindemann*

Benson takes flight

Kevin Benson, 49, who has just taken over the top job at troubled Canadian Airlines International, says he expects to collect the prizes eventually, but will endure plenty of kicks in between.

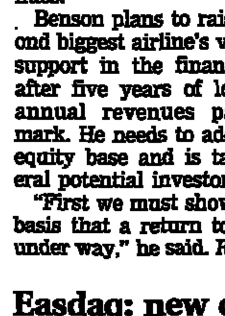
A chartered accountant who helped to save Trizec, Canada's biggest property group from collapse, Benson moved to Canadian Airlines eight months ago as chief financial officer. Now he is president and chief executive following the resignation of Kevin Jenkins.

"I'm a team player and you get the job done or you get out," said Benson. He must complete Canadian's turbulent journey back to profitability. Jenkins cut costs, dropped unprofitable routes and forced the unions into concessions, while trying to raise revenues.

Benson plans to raise Canada's second biggest airline's visibility, rebuild support in the financial community after five years of losses, and raise annual revenues past the C$3bn mark. He needs to add C$300m to the equity base and is talking with several potential investors now.

"First we must show on a quarterly basis that a return to profitability is under way," he said. *Robert Gibbens*

Easdaq: new chairman



Stanislas Yassukovich, (pictured), a driving force behind the Eurobond market in its early days and, more recently, an enthusiastic collector of non-executive positions, has just clocked up his eighteenth current directorship by becoming non-executive chairman of Easdaq.

Now set to open for trading in September, Easdaq has been founded by European and US investment banks, stockbrokers and venture capital companies as a pan-European equity stock market for growing companies along the lines of Nasdaq in the US.

Easdaq's board and the chief executive have been in place for some while. Explaining the delay in identifying the chairman, Yassukovich says: "It has been quite an exercise to draw together the different interests. I am not saying we have left the chairmanship to the last moment, but it took a while to get everything in place."

Yassukovich, who was born in France and has British and American nationality, certainly has a suitably cosmopolitan background. More important, he claims to spot "an almost devastating logic" in his appointment insofar as he always believed that "the Eurobond experience" would lead to "a time-zone-driven mechanism for developing liquidity in equities".

A former deputy chairman of the London Stock Exchange (1987-90), chairman of Merrill Lynch Europe (1985-91) and twice chairman of the International Securities Market Association (then the AIBD) in the late 1970s, Easdaq's new chairman does not want for connections. Formerly also chief executive of the European Banking Company, a London consortium bank, he will be hoping that Easdaq is a more durable concept than that of consortium banking. *Katharine Campbell*

ON THE MOVE

■ Thomas O' Neill succeeds Robert Brown as chairman of the Canadian branch of PRICE WATERHOUSE. He is replaced as national managing parter by Michael Mueller.

■ PLANET HOLLYWOOD INTERNATIONAL has appointed three new non-executive directors: Claudio Gonzalez, 62, chairman and chief executive of Kimberly-Clark de Mexico; Mark McCormack, 60, head of the sports and entertainment conglomerate International Management Group; and Michael Tarnopol, 59, senior managing director and chairman of the investment banking division of Bear, Stearns.

■ Robert Anderson, 79, has resigned as chairman of HONDO OIL & GAS, the US energy group, for health reasons, but will retain the title of chairman emeritus. The former head of Atlantic Richfield, Anderson's family retains a significant stake in the company.

■ Yeo Choon Tat has resigned as company secretary of CREATIVE TECHNOLOGY, the computer sound board maker based in Singapore. Ng Keh Long replaces him.

■ Craig Pryor becomes vice-president, procurement for ROCKWELL AUTOMOTIVE's Heavy Vehicle Systems business.

■ Christine Menz succeeds Christoph Abt as head of communications and public relations at ALUSUISSE-LONZA HOLDING.

■ David Lawrence has been named managing director of MARCO POLO DEVELOPMENTS, the Singapore-based property and hotel group.

■ William McDonough has been appointed acting chief financial officer of NATIONAL STEEL CORPORATION in the US, following the resignation of William Harper.

■ Manfred Wolf, 58, becomes vice-president, quality and reliability for GENERAL MOTORS EUROPE, and a member of the European strategy board. Wolf, who joined Opel in 1958, has been vice-president, vehicle platform development, for GM International Operations since November 1994.

■ Luc Bracke, managing director of Volvo Italia in Bologna, has been appointed head of Business Area 400 at VOLVO CAR CORPORATION.

■ Gilbert Tenoux, 48, joins WALON, the French car distribution business, as managing director for France. He was previously with Carrier, a manufacturer of refrigerated transport equipment.

■ Lucy Collett becomes vice-president, business practices at the "new" DUN & BRADSTREET, one of the three companies being formed by the break-up of Dun & Bradstreet Corp. She will report to Volney Taylor, chairman and chief executive of the "new" Dun & Bradstreet. Collett is presently vice-president and associate general counsel at Moody's Investors Service in New York, and will continue in that role.

■ Pierre Laguerre, 56, has been appointed as director of international affairs at RHONE-POULENC. He had been assistant director responsible for CIS-China-Vietnam since 1991.

■ Enrique Hernandez joins the board of MCDONALD'S CORPORATION as a non-executive director. Currently president and chief executive of California's Inter-Con Security Systems, Hernandez is a co-founder of Interspan Communications, a television broadcast company serving the Hispanic community.

■ John Hanson becomes president of HARNISCHFEGER INDUSTRIES, a US mining equipment group which last year took over Dobson Park of the UK after an acrimonious take-over battle. Hanson joined the company in July 1995 as executive vice-president and chief operating officer from Joy Mining Machinery.

■ Hubertus Moser is the new chairman of LANDESBANK BERLIN's supervisory board. He was previously chairman of the management board, where he is succeeded by Ulf Wilhelm Decken.

■ Peter Nicolay, 41, becomes managing director of REMY DEUTSCHLAND.

■ Helmut Panke, 49, joins the board of management at BMW. He will continue as chairman and chief executive of BMW (US) Holding Corp, and add responsibility for industrial relations when Helmut Niederhofer retires.

■ Roland Mecklinger, chairman of auto parts group Fichtel & Sachs, becomes management board chairman at ALCATEL SEL, the German subsidiary of Alcatel Alsthom, on August 1. Peter Landsberg, Alcatel SEL chairman, will remain Mecklinger's deputy.

■ David Mann, a partner in Halifax law firm Cox Downie, becomes president and chief executive of NOVA SCOTIA POWER. He replaces Gerry Godsoe, who died in April.

■ Peter Widdrington, former chairman, president and chief executive of John Labatt, is to chair TALISMAN ENERGY, the Canadian oil company. He replaces Keith McWalter, who has retired. Donald Anderson becomes a director.

■ John Cole has resigned as chief executive of MAYNE NICKLESS EUROPE. He is replaced by Bill Kirk – previously chief executive of Mayne Nickless North America – who will take responsibility for both geographic areas and remain based in Canada.

■ Edward Flood has been appointed president of INDOCHINA GOLDFIELDS. Most recently he worked for Robertson Stephens of San Francisco, evaluating mining investment opportunities for its Contrarian Fund.

■ Reinhard Grasse, 50, joins the board of SIEMENS-NIXDORF.

■ Goran Nygren rises from sales director to managing director at APPLE's Swedish subsidiary, succeeding Jan Nerdal who is leaving the company. Nerdal's role as head of Apple's northern European operations goes to Ole Andersen, the head of Apple in Denmark.

■ James Robinson is to chair DORNIER LUFTFAHRT.

■ Bernard Hirl becomes senior vice-president and chief financial officer at TITAN CORPORATION. He was previously vice-president of finance for Unisys's health information management group.

■ Daniel Carroll, chairman of Carroll Group, a management consultancy, has been appointed a director of HOLMES PROTECTION GROUP.

■ Kenneth Larsen becomes interim president of COPLEY PHARMACEUTICAL, in place of Gabriel Cipau who is leaving the company. Larsen has been a director since 1989.

■ Francis Yuen Tin-fan, former Hong Kong Stock Exchange chief executive, has been appointed deputy chairman of PACIFIC CENTURY.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Opera/David Murray

A parable and fable from a master storyteller

Almeida Opera is running a particularly appealing festival this summer, with enough good new non-operatic music to invoke a ghost of the old, more expansive and much-missed *Almeida* festival.

It was opera, however, that I went to hear: a double bill by Param Vir, a westernised – or at least, western-acclimatised – 44-year-old Indian composer.

Snatched by the Gods and *Broken Strings* had a warm reception at the 1994 Munich Biennale, probably in the same ethnic-friendly spirit which guaranteed Tan Dun's success with his *Marco Polo* at this year's Biennale, and the Almeida was quick to snatch them up.

Param Vir and the younger Chinese-American Tan Dun share the newly favoured status of eastern-but-world-oriented composers who can seize western ears. Both of them revere Takemitsu, the late Japanese composer who made a definitive breakthrough to western concert audiences; but they operate in their own distinct ways.

The oriental component in Tan Dun's music is reflected chiefly in the delight he takes in ancient ethnic sounds, and a certain chant-diction, and long-sustained but colourful pauses. When his music is elaborate, it becomes western; there is no Chinese tradition of such expressive complexity. Nor is there in China any tradition of sophisticated solo improvisation, such as delights knowing westerners in Persian and Indian music.

The latter tradition is what informs Vir's work. Born into a north Indian family devoted to their own classical music, at the age of nine he demanded – "imperiously", he says – Bach and Beethoven. Certainly the broad lines of his two short operas are formally, elegantly controlled in the conscious western-classical manner. Yet in *Broken Strings*, a parable about two musicians vying for the post of Player to the King (one young, brash and brilliant, engagingly played by Stephen Rooke as Rik Mayall and excellently sung, the other old, collapsing and wise, passionately rendered by Richard Suart), their sixfold "improvisations" are the heart of the matter.

Never mind that those "improvisations" are lushly aforethought by Vir, not for the visible stage sitar but for celesta, harp, xylophone, vibraphone and marimba. The different burdens that they carry for David Rudkin's text answer beautifully to the timeless Indian models, incarnating Vir's message in fresh, wordless sound –though for prudence' sake old Guttil's selfless flights are illustrated by a dancing mythological elephant (Nuala Willis, delectable as always), a fish and a peacock.

Snatched by the Gods is more like a Brecht fable. On a pilgrimage, fraught familial relationships are raised to archetypal roles in a moral adventure-story. Its most dramatic events are realised in clever music, but I was most struck by Vir's writing for his solo voices (especially Robert Poulton, authoritative as the pilgrims' group-leader). All of them sank their teeth into their lines with complete conviction, as happens only with good voice-setting.

With David Farr's astutely plain stagings in Angela Davies's designs, the overall effect was opulent but very sharply pointed. Recommended for sheer exotic pleasure; also for some mind-opening illumination, however quaint the premises may be.

Festival supported by Peter Moores Foundation: Param Vir operas supported by the John S. Cohen and the Britten-Pears Foundations. Last performances of the Vir operas at the Almeida Theatre, London on July 17, 19.

Creative tension proves a pull

William Packer celebrates the work of Kenneth Armitage at the Yorkshire Sculpture Park

We are as prodigal and inconsistent in our forgetfulness as at other times we are in our enthusiasm and support. British sculpture, we proudly tell ourselves, has been the glory of British art throughout the twentieth century. And as each generation of brave young sculptors has burst upon the scene, how often have we declared that with it a new dawn has broken as though British sculpture, newly revived, has at last been established on the international map, after a long, dark night.

It has happened many times. Moore and Hepworth in the 1930s did for Epstein, Gill and Dobson who had preceded them, and so in turn, just after the second world war, another group of young sculptors came to challenge them.

Moore and Hepworth, so it proved, were well entrenched enough not to be overturned so readily, but these names were soon sufficiently established to assert their distinctive presence. Throughout the 1950s, under the collective description, "The Anatomy of Fear", Clarke and Adams, Brown, Meadows, Dalwood, Turnbull and Paolozzi, Frink and Chadwick, the still figurative Caro, Reg Butler and of course Kenneth Armitage, were the Brave Young British Sculptors of the day.

Some did survive into other separate and mature reputations, but the rest sank back into that awkward state of being half-forgotten, half-condescendingly remembered as the critical markers of the moment in the sun. Fortunately the Yorkshire Sculpture Park, under its founding director, the admirable Peter Murray, has never been the creature of such narrow critical orthodoxy, and is constantly burrowing back into the store, pulling neglected individual achievement back into the light and with it reminding us of the essential continuity and coherence of the modern British sculptural tradition.

Kenneth Armitage, now 80, who until now enjoyed his first and only major retrospective in this country at the Whitechapel in 1959, is the latest beneficiary. And it is immediately made clear that he is still a substantial artist.

If, in his historical context, he stands as an important transitionary figure between the figure-based imagery of Moore and the formal abstraction and more open technical experimentation that came later, his own continuing development with the logic and constraints of his instincts and sensibility is no less intriguing.

Both indoors, in the Park's Bothy and Pavilion Galleries, and outside in the formal garden below the terrace, the arrangement of the work is thematic and aesthetic rather than chronological. What this does is to bring out the essential unity of the work from first to last, for all the apparent shifts in medium and imagery. It is informed, so we come to realise, by the same preoccupations throughout. Always there is the same formal simplicity, the same frontal presentation.

There is constant engagement with a smooth and polished surface, not hard exactly, but taut and firm like young flesh. Time and again we find the image of the figure caught in a forward movement by the lift of the foot, the cock of the knee. This insistent interest in movement is often expressed in relation and contrast to a penetrated surface, a dividing screen, front and back. We think of Cocteau's *Orphée* and the step through mirror into the Underworld, or the living arm that brandishes their *Flambeaux* through the wall. The defining space is shallow, the screen to be punched through as thin as a wafer.

Armitage has always been at heart a figurative artist, at no matter how abstracted the remove. One particular early work, the small black bronze *Standing Woman* of 1947, catches it all. There already is that smooth taut surface, the active turn of the head, the light lift of the heels and the flexed knee. And they are the simplified pert breasts that are to become the formal horizontal accents of the more abstracted figures of the 50s, or later still the horns and funnels, like fungoid growth on tree-trunks, that penetrate the strange *Pandarus* totems of the 1960s.

These mark for him the high tide of abstraction in his work, and the shift back towards a more obvious figuration that followed was at odds with the times – which explains perhaps something of his subsequent critical invisibility. Yet that was an impulse felt by others though they responded perhaps more slowly and circumspectly. Caro, Paolozzi, Turnbull, for example have all succumbed to varying degrees, while yet managing to preserve their modernist unreactionary credibility.

That impulsion, that tidal pull back towards figuration, is indeed an important, perhaps necessary, element in the character of abstraction for the creative tension it generates between form and content.

Always interesting are those artists who like Kenneth Armitage, recognise it and respond to it.

Kenneth Armitage 80th Birthday Survey: Yorkshire Sculpture Park, Bretton Hall, Wakefield, South Yorkshire, until September 8: financially supported by the Henry Moore Foundation with assistance from the John Jones Arts Centre.

Clare Lilley

Kenneth Armitage's L-shaped Screen in aluminium from 1991

Theatre

A moral dilemma

There is never more grist to drama than when human relationships are being ground through the mill of moral dilemmas. Claire Luckham's *The Choice*, revived at Richmond after success in the regions, is a raw study of pregnancy and the consequences of a positive amniocentesis test on one humdrum couple.

There is clinical rationale behind the test. Drawing the amniotic fluid from the womb during pregnancy to discover whether the baby will be born with Down's Syndrome, is scientifically progressive, socially responsible. But if you are the parents, you face ethical choices at every turn.

The test itself is a choice with deep psychological repercussions. If you decline it, what are you leaving to chance? By having the test, you are implying that you are prepared to choose abortion. But by then, as Luckham's play makes painfully clear, you will have become prematurely attached to the baby through all the medical attention and the rehearsing of "what if?" scenarios. You will also have determined its sex through the ultra-sound scans, so that an abstract "it" becomes an emotive "he" or "she". As the Consultant in the play states with cold honesty: "Nobody plans for a baby that isn't beautiful."

Ray is an illustrator of children's books. Sal, 35, is a journalist. The prospect of a baby is the most wonderful thing to have happened to their relationship. It is also the most destructive. Ray is disgusted at Sal's determination to reject their child. The abortion takes place when the foetus is already 22 weeks. Sal goes through the (e)motions of childbirth, but without the reward – an appalling, distressing, extraordinary climax to an engrossing performance by Eve Matheson.

The Writer features in the play too, in an exquisite performance by Jenny Howe. The story of Luckham's own 50-year-old brother who has Down's is told alongside Ray and Sal's – not to condemn, but encounter.

Dominic Hill's production is assured, dignified, carefully balancing the high emotions. There is one motif which he marks fastidiously: the tired tinkle of cup-and-saucer in moments of extreme crisis. We all know how to crack open the champagne in celebration. We are not equipped to deal with the devastation life can bring.

S.R.

At the *Orange Tree Theatre* until July 27 (0181 940 3633).

Theatre/Simon Reade

A neat exercise in dramatic confrontation

A beautiful young woman is washed up on the Cape Cod coast. She is scooped up by a budding writer, and laid out on the sofa of his home which overlooks the beach. "You were dancing in the sea?" he asks. "Yip."

These are two volatile people living on the edge. Yet some time later, they have settled into domesticity, sustained by zestful love-making. She works as a waitress to fund a college course. He continues to work as a librarian, although he is a writer - that essential American determination that you are what you say you want to be.

He offers her the chance to be herself, not what her family, or the people she meets hitching across the States, have presumed her to be. But she gets pregnant: "Our lives won't be as free and we'll be a bit more like everybody else." They argue over her desire to have an abortion. They seem to resolve their differences – but at the same time, do not: "I've got to go back where I came from, which is nowhere."

You may doubt the credibility of Don Nigro's *Seascape with Sharks and Dancer* but it is a neat exercise in dramatic confrontation. The two fine performers sail along with a scatty energy, mood-swinging from wry control to petulance to despondency. Lucinda Cowden is cute and obnoxious at the same time, a kooky siren with a sneer. Nathan Osgood is teasingly psychotic beneath an urbane, preppy charm. They relish Nigro's wise-guy banter.

The production is impeccably directed by Paul Miller on an exquisite design by Jackie Brooks. A wide sofa sits in front of handsome bleached wood shells, all against a marine-blue wall.

Hartley A. Kemp's lighting bathes the airy space with sea-light which seems to let in the ocean breeze. The floor is the venue's own rough stripped boards, looking as if it is charred driftwood. This nifty theatre has just been awarded a £97,000 Lottery pay-out to expand within the Victorian brick warehouse it occupies on Southwark Bridge Road. Let us hope this capital investment will be matched soon by the sustained commitment to human resources.

At the *Southwark Playhouse* until July 20 (0171 620 3494).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION

Rijksmuseum Tel: 31-20-6732121

● Disegni. Drie eeuwen Italiaanse tekenkunst uit eigen bezit: exhibition featuring a selection of 80 drawings by Italian artists from the 15th to the 18th century. Included are works by artists such as Piero di Cosimo, Sebastiano del Piombo, Frederico Barocci, Carlo Marata and Giambattista Tiepolo; to Aug 4

■ ATLANTA

EXHIBITION

High Museum of Art Tel: 1-404-733-4400

● Rings: Five Passions in World Art: this exhibition, organised in conjunction with the Olympic Games, explores the power of art to evoke five universal emotions: love, anguish, awe, triumph and joy. More than 125 objects from international public and private collections are grouped into five sections, each devoted to one of the five passions. The exhibits include El Greco's "The Resurrection", Auguste Rodin's "The Kiss" and Henri Matisse's "Dance(II)"; to Sep 29

MUSICAL

Symphony Hall *Tel: 1-404-892 3600*

● Of Thee I Sing: by Gershwin. Conducted by William Fred Scott and performed by the Atlanta Opera. The cast includes Paul Sorvino; 8pm; Jul 18, 19 (2pm)

■ BONN

EXHIBITION

Kunst- und Austellungshalle der Bundesrepublik Deutschland Tel: 49-228-9171200

● Wisdom and Compassion. The *Sacred Art of Tibet*: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents the important stylistic developments from the 9th to the 19th century. On display are 190 objects of sacral art, mainly scroll-paintings (tangka) and ornate metal sculptures, but also application work and tapestries as wel as wooden, ivory and stone sculptures with a strong religious expression; to Aug 25

■ COPENHAGEN

EXHIBITION

Ny Carlsberg Glypothek Tel: 45-33 41 81 41

● Byzantium. Late Antique and Byzantine Art in Scandinavian Collections: this exhibition brings together more than 100 objects from Uppsala, Stockholm, Oslo, Helsinki, Copenhagen and Odense. The display includes late Roman imperial portraits, Coptic textiles and limestone reliefs, late Antique and Byzantine coins, pendants and manuscripts from the middle Byzantine period, and icons from the late Byzantine era; to Aug 31

■ LONDON

CONCERT

Wigmore Hall Tel: 44-171-9352141

● International Songmakers: soprano Christine Schäfer, mezzo-soprano Stella Doufexis, baritone Finnur Bjarnason and pianist Graham Johnson perform works by Mendelssohn, Brahms, Wolf and Britten; 7.30pm; Jul 17

DANCE

Royal Opera House – Covent Garden Tel: 44-171-2129234

● Manon: a choreography by Kenneth MacMillan to music by Massenet, performed by the Royal Ballet; 7.30pm; Jul 17, 20 (2pm & 7pm)

EXHIBITION

Barbican Art Gallery Tel: 44-171-6384141

● Eve Arnold: In Retrospect/Derek Jarman: A Portrait: two exhibitions shown at the same time. Eve Arnold: In Retrospect covers the life's work to date of photographer Eve Arnold, who for more than four decades has served as witness through camera and words to many of the leading figures and events of the latter half of the 20th century. The display includes more than 200 photographs.

Derek Jarman: A Portrait considers the diversity and impact of Jarman's career as an artist, film-maker, stage designer, writer, gardener and influential figure in gay politics. The exhibition features over 200 works including paintings, theatre designs, photographs, writing and his Super 8 films; to Aug 18

Victoria & Albert Museum Tel: 44-171-9388500

● The Pre-Raphaelites and Early British Photography: this exhibition brings together drawings and watercolours by the Pre-Raphaelites and their followers, and work of such photographers as Francis Bedford, Lady Hawarden and Julia Margaret Cameron; to Sep 29

THEATRE

Barbican Theatre Tel: 44-171-6384141

● Richard III: by Shakespeare. Directed by Steven Pimlott and performed by the Royal Shakespeare Company. The cast includes David Trouthon; 7.15pm; Jul 17, 18

■ LOS ANGELES

CONCERT

Hollywood Bowl *Tel: 1-213-850-2000*

● The Los Angeles Philharmonic: with conductor Essa Pekka Salonen perform works by Telemann, Kuhlau, Czerny, Doppler and Joplin. Soloists include pianist John Steele Ritter and flautists Jean-Pierre Rampal and Claudi Arimany; 8.30pm; Jul 17

EXHIBITION

Los Angeles County Museum of Art Tel: 1-213-857-6000

● Masterpieces in focus – Paintings of Zhi Garden by Zhang Hong: Revisiting a 17th Century Chinese Garden: this exhibition focuses on a set of Chinese album paintings entitled "Paintings of the Zhi Garden" by Zhang Hong. Painted in 1627, the 20 leaves of Zhi Garden depict a private garden estate in Suzhou. This presentation, made possible by international loans, offers the first opportunity for the public to view this album in its entirety; to Jul 21

Norton Simon Museum of Art Tel: 1-818-449-6840

● The New Wave: Bonnard, Toulouse-Lautrec and Vuillard and the French Color Print: exhibition of 38 colour lithographs by the 19th century avant-garde painters/printmakers Pierre Bonnard, Henri Toulouse-Lautrec and Edouard Vuillard; to Jul 21

■ MUNICH

DANCE

Nationaltheater Tel: 49-89-21851920

● Swan Lake: a choreography by Ray Barra after Petipa to music by Tchaikovsky, performed by the Bayerische Staatsballett München. Soloists include Natalja Trokaj and Kirill Melnikov. Part of the Münchner Opern-Festspiele; 7.30pm; Jul 17

OPERA

Cuvilliés-Theater – Altes Residenztheater Tel: 49-89-296836

● Cosi fan tutte: by Mozart. Conducted by Peter Schneider and performed by the Bayerische Staatsoper. Soloists include Marilyn Schmiege, Manfred Hemm and Rainer Trost. Part of the Münchner Opern-Festspiele; 2.30pm & 7pm; Jul 17, 19

■ NEW YORK

EXHIBITION

Museum of the City of New York Tel: 1-212-534-1672

● Gaelic Gotham: A History of The Irish in New York: exhibition featuring over 400 original artefacts that are displayed in thematic and chronological sections. Within each section, the exhibition focuses on themes important to the story of Irish New York life; to Oct 27

■ PARIS

EXHIBITION

Fondation Cartier pour l'Art Contemporain Tel: 33-1 42 18 56 50

● Comme un Oiseau: this exhibition explores the universe of birds as seen through human eyes, from some of man's earliest art to the most recent experiments in contemporary art; to Oct 13

■ ROTTERDAM

POP-MUSIC

Feyenoord Stadion – De Kuip Tel: 31-10-4929400

● The Eagles: performance by the American pop group; 6.15pm & 7.45pm; Jul 17

■ WASHINGTON

EXHIBITION

National Gallery of Art Tel: 1-202-7374215

● The Robert and Jane Meyerhoff Collection: 1945 to 1995: exhibition of some 190 works from this private collection of post-second world war art. The greatest strength of the Meyerhoff Collection lies in its concentration of works by Jasper John, Ellsworth Kelly, Roy Lichtenstein, Robert Rauschenberg and Frank Stella; to Jul 21

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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08.30
Squawk Box

10.00
European Money Wheel

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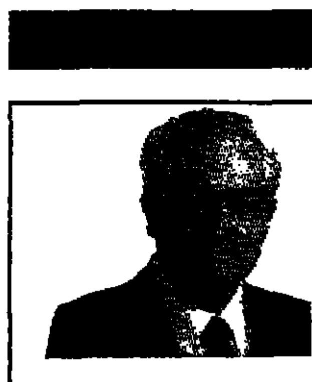
Financial Times Business Tonight



Martin Wolf

A clever spending wheeze

Government insistence that the private finance initiative will mean better value for money in public spending should be viewed with a healthy degree of scepticism

When Mr Norman Lamont, the then chancellor, launched the private finance initiative in November 1992, he described it as the most significant reform since privatisation. The idea was that the private sector would both provide and run public services, such as hospitals, in return for annual payments from the responsible department.

Others, however, have condemned the initiative as a clever swindle. The PFI could, they argue, be a cloak for off-budget increases in public spending. Alternatively, it may put a veil over the government's failure to invest.

The government wishes to cut the share of public spending in gross domestic product, the ratio of public-sector borrowing to GDP and headline tax rates. But it does not want to be seen to abandon responsibility for public investment. The PFI is a brilliant solution. If it works, liabilities are displaced from current to future spending. If it fails, the government can blame the lack of investment on the private sector. Either way, it wins.

Yet if the PFI is indeed an accounting trick or a way to shuffle out of government responsibilities, the country will lose. There is a third possibility – the one the government insists upon. By improving incentives and the allocation of risk, the PFI could mean better value for money in public spending.

The proposition has a degree of plausibility. Privatisation of nationalised companies revealed previously unsuspected degrees of inefficiency. Huge cost reductions have been achieved, notably when privatised utilities were subjected to competition. This should also be possible in the provision and operation of public services. If such gains could be secured without collateral damage to either the public finances or the supply of economically justified public services, the case for the PFI would be overwhelming.

Yet difficulties abound, inevitably so. Mr Douglas Hogg, former chief executive of the private finance panel, responsible for promoting the PFI, explains why in a guide released last May (*Risk and Reward in PFI Contracts*). The initiative is, he writes, *not* "simply a matter of identifying individual risks and seeking to transfer them. PFI requires a total shift in mindset to see it as an opportunity to provide *services*, leaving the risk of ownership and operation of assets with the private sector. Easily said, it has proved hard to do."

The complaints of business, marshalled by the Confederation of British Industry in its document on the PFI (*Private skills in public service*) published last week, prove how right Mr Hogg was. The total of PFI contracts since its launch is only £5½bn. Admittedly, £4.8bn of the total was agreed in 1995-96 alone. But £3bn was for the Channel tunnel rail link, a project of dubious value that benefits from £1.4bn in cash subsidy – £25 from each UK citizen.

Assume, however, that the PFI gains momentum, as the government hopes. Then, argues the Treasury in a reply at the end of June to a critical report from the Commons Treasury committee, it will bring big benefits:

- The initiative will force the private sector to bear overruns on capital costs, which have averaged 24 per cent on publicly funded construction projects. This would give a reduction of 7 per cent in lifetime project costs.
- If the effects turn out to be similar to those under contracting out, the PFI could generate reductions of 20 per cent in operating costs. This would reduce life-time project costs by 14 per cent.
- The public sector will benefit from innovative private-sector ideas for the provision of public services.

These arguments have force. But consider the following objections.

First, by looking to the private sector to finance public projects, the government is losing the benefit of its position as the most creditworthy borrower. A report on the PFI published by Oxford Economic Research Associates (*Infrastructure in the UK: Public Projects and Private Money*) shows that the interest rate on debt issued to finance the Dartford Thames crossing and the second Severn crossing were 2¼ percentage points and 1¼ points, respectively, above the Treasury gilt rate in 1995. The greater the risk borne by the private sector, the higher the premium will become.

Second, the government may still not obtain the service in time or in the agreed manner. Andersen Consulting, for example, has renegotiated a contract to provide a new computerised National Insurance records system. It will now be supplied more slowly than initially agreed.

Third, if private enterprises can be forced to take the risks of cost overruns under the PFI, there is no reason why the same should not be true of conventional projects.

Fourth, public officials have had great difficulty in arranging the right incentives for on time and on cost completion of conventional projects. They are likely to find it just as hard to agree and monitor the still more complex contracts needed to govern the performance of long-term services.

Fifth, the pattern of public investment is likely to be skewed in favour of things that are relatively attractive for the private sector.

Finally, because of commercial confidentiality, the detail of PFI bids and contracts must be secret. Thus alleged improvements in value for money may be hard to prove.

The efficiency gains of the PFI may ultimately be large. But these are birds in the bush. It seems overwhelmingly likely that the immediate aim of the PFI was to justify the decision to reduce public spending on infrastructure. This is fully consistent with the chancellor's latest forecasts for the real level of public capital spending. Even including the PFI, this shows a decline in the years to 1998-99. Meanwhile, the PFI's share in spending over that period is expected to be small.

This sluggishness may not be temporary. The government has declared its intention to agree £14bn in deals by 1998-99. But public bodies can enter into such contracts only if they can be sure they will have the money to meet their future obligations. The DSS may be confident of its ability to pay for a computer system. A university cannot be.

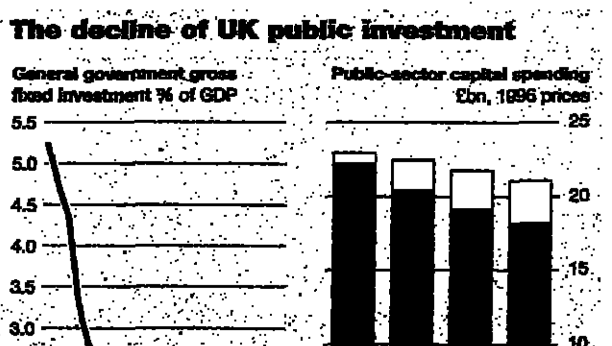
The more these obstacles are overcome and the objections of business to the working of the PFI are met, the bigger the initiative will become. Then the danger will be to the public accounts. As the Treasury committee has noted, the PFI has the capacity to generate huge hidden fiscal liabilities.

This is a reflection of the absurdity of the public accounts, with their focus on annual statements of cash-flow. Such accounts are particularly inappropriate for an immortal entity with long-term obligations and assets. A partial solution is the planned shift to resource accounting, which will charge departments for the cost of the capital they employ. As the Treasury notes in its 1995 publication, *Better Accounting for the Taxpayer's Money*: "This will allow a better comparison between publicly and privately financed capital projects, where the full current cost of owned assets can be compared directly with the charges incurred under private finance options."

This is true, as far as it goes. But it does not ensure adequate control of the public spending implications of the PFI. Conventional balance sheets, when introduced, will not show the obligations to future spending. But the Treasury has told the Treasury Committee it intends to provide projections of the aggregate spending expected to arise from PFI deals. A still more effective device would be to state the present value of PFI obligations in the year in which contracts are signed.

The PFI could turn out to be a more effective way of providing public services. But it could also be a bit of a swindle. Until the government demonstrates the additional value for money, public investment begins to look less depressed and public accounts are seen to convey the full implications of the PFI, healthy scepticism must be the right approach.

The decline of UK public investment



Source: CBI from Red Book, FT Extel

Alice Rawsthorn on the digital effects makers who are the new stars of Hollywood

From liquid metal man to flying cows

Rarely a day goes by in Hollywood without the news breaking of yet another actor clinching a multi-million dollar deal. But behind the scenes a new sort of movie star is emerging – the digital effects specialist.

Once dismissed as the indulgence of a handful of computer-crazed directors, digital technology is now a standard component of films and is responsible for such dazzling sequences as the flying cows in *Twister* and exploding White House in *Independence Day*.

Variety, the film industry magazine, recently estimated that the investment in visual effects for a $75m-plus film has risen from $5m five years ago to $24m today. Effects budgets seem set to increase further in the future as film makers seek ever more elaborate spectacles.

The founding father of digital effects is George Lucas, who fled from Hollywood after a stellar career as the director of *Star Wars*, the third highest grossing movie of all time, to concentrate on his effects experiments at Industrial Light & Magic, the laboratory he set up at his ranch in San Rafael, northern California.

Lucas started off with conventional effects – "special effects" as they were called – using models and paintings. He then pioneered the use of computers to create digital replicas of film characters and visual spectacles, such as explosions and natural disasters.

ILM's first significant computer-generated effect was an alien liquid worm created for *The Abyss*, the 1989 film directed by James Cameron. Two years later it invented a more visually sophisticated liquid metal man for Cameron's next picture, *Terminator 2*.

However the digital effects landmark was *Jurassic Park*, the 1993 blockbuster directed by Steven Spielberg which steamed past *Star Wars* to become the second highest grossing film ever, partly because of the audience's fascination with the stunningly realistic dinosaurs created by ILM's computers.

Jurassic Park has spawned a series of effects-laden, sci-fi films, including *Stargate*, *Waterworld* and *Independence Day*. Its success also encouraged film makers to apply digital effects to other types of films including *The Mask*, in which Jim Carrey's face metamorphoses and *Twister*, with its devastating typhoons.

Effects are also used for more pragmatic reasons. Directors use them to cut costs, as in the *Forrest Gump* anti-Vietnam War demonstration where 1,000 extras were digitally cloned into a 50,000-strong crowd, or to replicate stunts which would be too dangerous to stage in real life. One example is the helicopter pursuit of a high-speed train through the Channel tunnel in *Mission: Impossible*.

The explosion in demand for effects has created a new Hollywood growth industry, the effects labs that have sprung up in and around Los Angeles to rival ILM.

One of the most successful is Digital Domain, which was founded in 1993 by James Cameron as a joint venture with IBM, and now employs 425 people at its Venice Beach headquarters where a Jolly Roger flag flies from the roof. Other labs include Dream Quest Images, which digitally replicated the image of Brandon Lee, star of *The Crow*, after he died before the film's completion, and Rhythm & Hues, the company behind *Babe's* talking animals and Eddie Murphy's obesity in *The Nutty Professor*.

> The studios are now taking business away from small labs, although the larger labs still win contracts for the most prestigious films

Movie studios, such as Warner and Sony, have set up their own effects labs which has intensified the competition for talent. Digital effects is such a new field that there are relatively few people with the necessary skills. Digital Domain offers $150,000-plus salaries and share options to its top graphic artists, most of whom are in their mid-20s.

The studios are now taking business away from small labs, although the larger labs still win contracts for the most prestigious films, often at the directors' behest. Hollywood is imitative in many areas, as illustrated by the stream of disaster pictures set to follow *Twister*, but the most successful "effects films" tend to be innovative; hence directors prefer to shop around for the best effects, rather than using the studios' resources.

ILM is now devising even more realistic dinosaurs for the *The Lost World*, Steven Spielberg's *Jurassic Park* sequel, as well as preparing for George Lucas's new *Star Wars* films. Digital Domain is completing Luc Besson's futuristic epic, *The Fifth Element*, and James Cameron's *Titanic*.

However the hidden ace of the digital effects whizzes may well be their ability to become more than suppliers to the studios. ILM is already one of the world's most successful video games creators, and Digital Domain will launch a *Barbie* CD-Rom game in a joint venture with Mattel this autumn.

It then plans to diversify into movie production as Pixar, the electronic film company did with *Toy Story*. If its production plans come to fruition, Digital Domain will go a step further than the current crop of movie stars. Not only will it demand multi-million dollar fees, it will also compete directly against the Hollywood establishment as a digital studio.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Right way to increase pay of UK MPs

From Mr James Maugham.

Sir, My school economics textbook taught me to expect the cost of haircuts to rise faster than inflation, because this profession has a constant production function (a barber cannot use new technology to cut more heads in a day). To keep pace with industries where productivity improvements permit inflation-plus rises, the price of haircuts must rise above inflation. MPs, like barbers, cannot affect their productivity and give two speeches at the same time. It is only right that an independent body re-rates MPs' pay according to the difficulty of job content.

Having just left Insead, a French business school, where the average age and starting salary of graduates is 28 years and £50,000 respectively, British MPs' former salary of £34,000 seems niggardly, and unlikely to attract any such graduate. It seems strange that William Hague, the Welsh secretary who left Insead 10 years ago, earns less than an alumnus of 1996.

James Maugham,
149 Sutherland Avenue,
London W9 1ES,
UK

Blairism good for Czech Republic

From Dr Jaromír Sedlák.

Sir, In his article "The fiscal trap for Labour" (July 9), Martin Wolf is probably right that Tony Blair's manifesto is not able to offer "a great period of above-trend growth" and a radical solution for "long-term and youth unemployment". But it should be taken into account that if the Labour party wishes to win the next election it cannot go too far.

What is heartening in the Labour party's manifesto is that it allows a deeper dialogue not only in the UK but also in the post-communist countries. Mr Blair is now changing his party. I hope that after the election he will change also his country, because he has a better philosophical approach – "The individual does best within a strong and united society, where . . . success depends . . . on working together".

Mr Wolf uses the term "gross domestic product" as a criterion as to whether Blairism will be a success. In his article "Better ways to measure progress" (October 2, 1995), Michael Prowse, discussing the World Bank report *Measuring environmental progress*, stated: "We have to move beyond GDP." President Clinton expressed the same view during the last G-7 summit in France. According to Czech opinion polls, fighting crime is more important for people than increasing our GDP. I agree with the Labour party's manifesto when it says: "Tough on crime and tough on the causes of crime is more than a slogan. It is a different philosophical approach. We cannot excuse crime, but we should try and tackle where and how it breeds."

We Czechs left a system which was mortally ill and I am glad that we got rid of it. But more and more Czechs are aware that contemporary capitalism is seriously sick. I do not think that Mr Blair is a new Robin Hood, but there is evidently no apparent alternative to Blairism, not only in the UK, but also in the Czech Republic.

Jaromír Sedlák,
Korunní 64,
120 00 Prague 2,
Czech Republic

Proposed BBC changes need public debate

From Mr Johnny Wilkinson.

Sir, The letter from Colin Browne, director of corporate affairs BBC, (July 13/14) refers to "The internal reorganisation we announced last month . . . ". Just who does he mean by "we"? Mr Birt's latest proposals are some of the most far-reaching changes affecting the work of programme staff in the history of the BBC. Yet there was no prior consultation with programme staff, Mr Birt's senior management colleagues, the BBC Broadcasting Councils for Scotland, Wales and Northern Ireland, the various BBC advisory committees or the licence-payers.

The BBC governors have failed in their responsibility to ensure that Mr Birt's proposals have been subjected to scrutiny and debate. Your editorial on July 8 ("Birt's choice") was right. The questions facing the BBC are far deeper than the appalling decision to integrate the World Service with the rest of the BBC. The chairman and the governors should insist on a public debate before accepting the recommendations of one man.

Johnny Wilkinson,
(Director of Public Affairs, BBC 1980-85),
Compass Cottage,
Box, Minchinhampton,
Nr Stroud,
Gloucestershire GL6 9HD, UK

Virgin/Delta codeshare recognised as being competitive

From Mr Richard Branson.

Sir, I am sure Delta Air Lines is more than able to answer for itself the charges levelled by Timothy Doke, managing director of American Airlines (Letters, July 13/14). I would, however, like to clarify a few points raised by Mr Doke.

The first is the suggestion that there is any resemblance at all between the codeshare arrangement which Delta has with Virgin Atlantic and the proposed merger between American and British Airways. Delta buys blocks of seats from Virgin and sells them in its own right in competition with Virgin, on routes which previously Delta was unable to serve. Unlike BA and American, we have not sought exemption from the competition laws in order to collude in the fixing of prices. The US and UK governments recognised when approving the Delta/Virgin codeshare that the arrangement would increase competition in the marketplace.

This is quite different from the BA/American deal, which will create a massive monopoly able to force smaller airlines out of business. Mr Doke says that BA and American will provide "more choice for customers". Not true. Not one additional routing will be available as a result of the merger. He says that there will be "more competition". Since when did the removal of a leading competitor lead to more competition? The reality is that competition will be reduced, fares will rise and service quality will fall.

Mr Doke argues that the merger will provide a strong incentive to liberalise the bilateral air services agreement. Why should these two issues be linked? If liberalisation is in the consumer's interest, let's do it (and do it properly – with plenty of slots made available to stimulate real competition). Why should BA and American drive government policy?

Finally, Mr Doke says that Delta and Virgin are opposing the BA/American merger in order to avoid competition. American Airlines really must be getting desperate to sink to such argument. Does anyone really think that an airline such as Virgin Atlantic is afraid of competition? Virgin has come from nothing in just over a decade ago, against enormous and at times unfair opposition, to become one of the most successful, most highly regarded and, for its size, most profitable carriers in the world. Mr Doke's suggestion is an insult to the public's intelligence. It is BA and American that have a history of trying to restrict competition and behaving in an anti-competitive way, which is yet another good reason to stop this merger.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Tuesday July 16 1996

Agreeing to debt relief

The Paris Club of official creditors is rarely in the limelight. This week's meeting is an exception. The officials have to discuss their contribution to the initiative on the debt of highly indebted poor countries put together by the International Monetary Fund and the World Bank. If the package is to be agreed at the annual meetings of the Bank and IMF in September, the Paris Club needs to decide quickly and act generously.

The aim of the scheme is for commercial, bilateral and multilateral creditors to reduce the debts of up to 20 poor countries to "sustainable" levels. This has been agreed, in general terms, not just within the Bank and IMF, but by the leaders of the Group of Seven industrial countries in Lyons last month. The difficulty is turning the broad commitment into decisions on sharing a burden expected to cost $7.7bn.

This will not be easy. Already there are disputes over the use of the IMF's gold reserves, an idea that has met the opposition of Germany and Japan. The G7 also disturbed the World Bank by recommending that it commit $2bn to the initiative. The Paris Club itself confronts complex options. In substance, however, its members have two decisions: how much of the burden they should shoulder, and how precisely to formulate detailed proposals.

On the distribution of the burden, the heart of the matter is how much of the burden is borne by developing countries other than the potential beneficiaries. Since the developed country members of the Paris Club are the dominant shareholders of the World Bank and IMF, the debate is partly about which of their pockets the money will come from. But the more of its resources the Bank uses, the less it will have for other borrowers. Since members of the Paris Club are better able to bear the cost than the other shareholders, they should do so.

The Paris Club should also go beyond the conventional Naples terms, which call for a notional reduction of 67 per cent in the debt burden. But the limitations on coverage mean that the effective debt relief for these 20 indebted countries has been only 36 per cent. What is needed, suggests the World Bank, is a real 67 per cent. This could be achieved by broadening the coverage of debt relief or by deepening the relief on what is now covered.

The Paris Club seems unlikely to agree to specific proposals this week. But its members should not postpone decisions until their next regular meeting, which would be too late to resolve the matter at the Bank-Fund annual meetings. What they should do, instead, is agree on the Club's share of the burden, ask the secretariat to prepare a menu of options and settle on a date for an emergency meeting by early September.

The need to ensure debt sustainability for highly indebted poor countries is urgent. But too many countries have tumbled head-over-heels in debt. A line should be drawn under this episode of profligate lending and insouciant borrowing. It must not be repeated.

German boards

With thoroughly teutonic deliberation, proposals to tackle shortcomings in the law covering German companies are grinding through the Bonn government machine. As far as they go, the ideas being considered in the justice ministry – including provisions to strengthen supervisory boards and to permit companies to buy back shares and offer improved incentives to managers – seem unexceptionable.

That all is not well with Germany's system of corporate governance has become increasingly clear in the past few years. Long-standing criticism of the big banks' dominant role as shareholders in industry has been fuelled by a string of corporate disasters – Metallgesellschaft, Schneider, Bremer-Vulkan, KHD – attributable at least in part to the banks' failure to exercise proper control. Moreover, the banks are themselves tiring of this role and of the corporate losses they find themselves shouldering as a result. At a time of stiffening competition in financial markets at home and abroad, they have better uses for capital than endlessly to prop up ailing industrial clients.

One answer would be to force banks to unwind significant portions of their industrial holdings. This seems undesirably draconian, and would not obviously produce more satisfactory results than the current system.

More important is enhanced accountability – within companies and between companies and their owners. In this spirit the ministry proposes a number of measures to strengthen oversight by supervisory boards and to encourage companies to pay greater attention to shareholder value.

A stronger role for the supervisory board seems overdue. More than one of the recent corporate collapses could probably have been averted had the *Aufsichtsrat* been paying proper attention. The justice ministry's suggestions would address a number of the factors which frequently prevent their functioning to best effect. It calls for a reduction in their size from 20 members; for limits on the number of supervisory board chairmanships an individual may hold; and for responsibility for appointing and overseeing auditors to be vested in them rather than management boards.

None of these proposals would eliminate the conflicts of interest banks frequently experience in their industrial dealings, or transform their ability to exercise control. But they would ensure greater clarity as to rights and responsibilities, and greater transparency where conflicts do arise.

Ultimately, however, the pressure for improved performance by German companies will come not so much from institutional tinkering as from the rigours of the capital markets to which increasing numbers of them are turning. By focusing also on measures to improve companies' relationships with the markets – through share buybacks and executive share option schemes – the government has offered welcome, if belated, recognition of this fact.

England alone

The news that rugby union's Five Nations Championship risks becoming the Four Nations, after the acrimonious departure of the England team into the embrace of Mr Rupert Murdoch, sets a worrying precedent.

It is, indeed, as a writer in The Times suggested yesterday, a drama in which "the greedy killjoys are at the gate, the mood of the Philistine is upon us". But the issue is not so much the fate of rugby – a game all too reminiscent of trench warfare, in which long periods of muddy boredom are interspersed with a few moments of terror – as the threat Mr Murdoch's approach poses to other famous collectives.

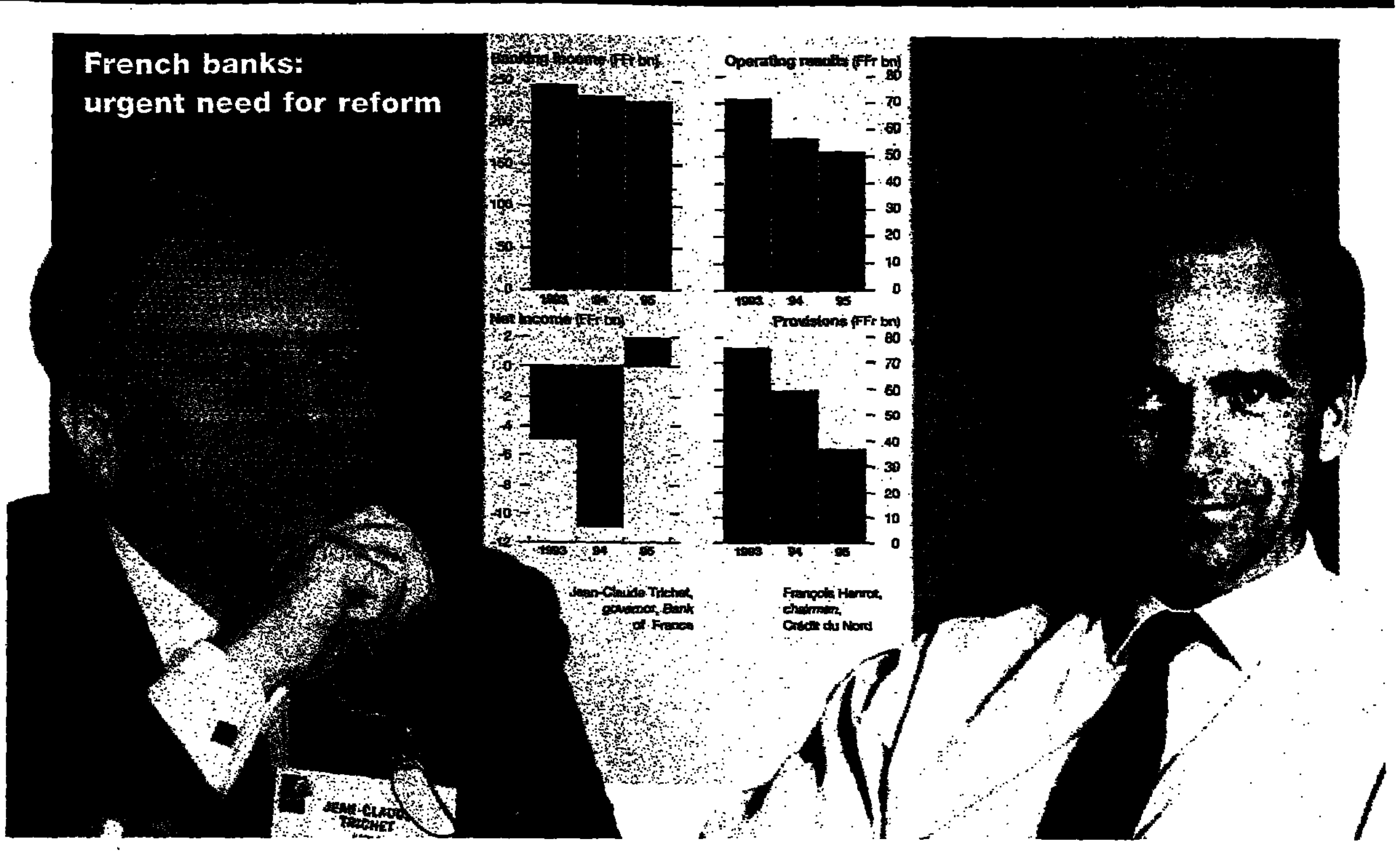
We are now entering an era in which the Magnificent Six, deprived of Yul Brynner's charisma, seek urgent discussions with their lawyers. Two coins will be left in the fountain, while the third decides to start a new career in the Tiber. Three Horsemen of the Apocalypse will wreak modified havoc, while the fourth sells himself exclusively to CNN. And Six Brides will have to make do with Six Brothers, as the missing couple hosts a talk-show on dysfunctional families.

This phenomenon is already familiar to fans of popular music. There is a flourishing publishing industry tracking what has happened to members of bands that have fallen apart. This week's British Top 10 is led by Gary Barlow, once a mainstay of Take That. The band's first defector, Robbie Williams, is also attempting a solo career.

Still, musicians need merely an endless supply of hysterically screaming teenagers. Sports teams need opponents. Mr Murdoch is offering England a gruelling substitute for the Scottish, Welsh, Irish and French opponents it will have to do without. He is proposing a rival competition, in which England plays South Africa, Australia and New Zealand. This guarantees England an arduous struggle it will rarely win.

Which leaves the England team only one sensible option: following Mr Williams in launching a solo career. Like the Harlem Globetrotters, a peripatetic basketball team, England must invent its own artificial opponent, a collection of pathetic sides doomed always to lose.

Someday, somewhere in space, there will be a plaque on a satellite commemorating this critical moment, putting the achievement on a par with that of rugby's founder, the schoolboy William Webb Ellis. Here, with a fine disregard for the rules as played in his day, the plaque will say, Rupert Murdoch picked up the game of rugby and ran off with it.



Jean-Claude Trichet, governor, Bank of France

François Henrot, chairman, Crédit du Nord

A mutual antagonism

France's commercial bankers complain that they face unfair competition from mutuals and savings banks, says **Andrew Jack**

Like most central bankers, Mr Jean-Claude Trichet, governor of the Bank of France, is guarded even in private remarks. So his public call last week for "an end to the competitive distortions" in the French banking market is a sign that concern about the sector's future has reached the highest levels.

Introducing the annual report of the state Banking Commission, Mr Trichet warned that "dangerous" commercial practices threaten the ability of French banks to compete with their foreign rivals. The commission said there had been an increase in "imprudent" behaviour by commercial banks in recent years at the expense of profitability.

That profitability has already been driven down by price wars to attract business, competition with the non-commercial banks and a legacy of poor management since deregulation in the 1980s. French commercial bankers believe reforms of the banking system are now urgently needed to ensure survival.

Concern about the health of the country's banks is nothing new. Crédit Lyonnais, the state-owned group, generated more than FFr21bn (£2.62bn) in losses between 1992 and 1994, and just broke even for 1995 only after a huge restructuring package. Some analysts predict it will lose at least FFr1bn this year unless further radical changes are implemented.

Crédit Foncier de France, the specialist property institution, is struggling to win shareholders' approval for a rescue plan that will almost wipe out their capital in order to cover losses for 1995 of FFr10.8bn.

These examples are not isolated. "We have had another unsatisfactory year," admits Mr Michel Freyche, head of the Association of French Banks which represents all the country's commercial banks. "For the second year since the second world war, banking revenues fell in absolute terms."

The total net income for his members crept back up to a modest FFr2bn for 1995 after three years of losses, including a record deficit of FFr11bn for 1994. But most of the recovery was due to a sharp fall in provisions against bad loans rather than any growth in the profitability of the underlying business.

The problems can be largely attributed to cyclical factors:

- The huge loans to the property sector, which have cost banks more than FFr150bn in write-offs over the past six years.
- Defaults on loans by small and medium-sized businesses during the recession of the early 1990s.
- A decline in demand for company loans when confidence has been low and interest rates high.

However, as the bad times have continued, Mr Freyche's association has also become increasingly vocal in its attacks on distortions which it claims threaten the long-term viability of the sector. "Our objective is a level playing field," he says. "Forget about a single market across Europe. We want a single market within France."

First on his hit-list is what he regards as the unfair competition offered by the non-commercial banks – the mutual banks, the post office, the Caisse d'Epargne savings bank network and other specialist financial institutions which control 42 per cent of the French market. They do not share the commercial banks' need to be profitable or to achieve the rates of return on capital required by shareholders.

Several state-supported institutions, furthermore, benefit from special privileges which have helped them gain and retain market share. For example, the post office, Caisse d'Epargne and Crédit Mutuel are the only banks allowed to offer the Livret A, a tax-free savings scheme.

And only the mutual Crédit Agricole and the state-controlled Caisse des Dépôts et des Consignations can handle notaries' deposits. These include all money for property and housing transactions, on which these institutions pay an annual interest rate of only 1 per cent.

Commercial banks also believe they are fettered by social legislation that impedes efforts to raise profitability. For example, banks are bound by a 1937 decree which severely limits their right to change working hours. Like all French businesses, they face tight regulations that make redundancy programmes difficult. They also pay an additional tax on payroll not levied on their mutual competitors.

However, some banks such as Banque Nationale de Paris have been able to cut costs through agreements with unions to reduce working hours while gradually shedding staff. Crédit Lyonnais recently announced 5,000 new job losses from its workforce of 35,000 by the end of 1998.

And Mr Philippe Marini, deputy chairman of the French Senate finance commission, says complaints by commercial banks about unfair competition smack of "self-justification". He warns that calling into question the "dynamism" of the mutuals risks killing "the goose that laid the golden egg".

This view is shared by Mr Patrick Artus, head of research at the Caisse des Dépôts. He says the mutuals have increased net banking income faster than their commercial rivals not because of their monopoly privileges but because they are rooted in local communities close to their clients.

Mr François Henrot, chairman of Crédit du Nord, a commercial bank which is part of the Paribas group and has only just returned to profitability, also argues that much of the problem is of the commercial banks' own making. He says they are using the mutuals as a scapegoat for difficulties arising since they were freed from state control in the 1980s.

France's largest banks – including the commercial giants Société Générale and Banque Nationale de Paris – had been nationalised since 1945. But the 1984 banking law, the removal of credit controls in 1986 and the subsequent privatisation of several banks led to what Mr Henrot describes as a decade of "collective drunkenness". "It is these years of folly which are still weighing heavily on the system," he says.

At the time, high interest rates meant easy profits for banks that were forbidden – as they still are – from paying interest on customers' current accounts. Loans were used as a loss-leading activity to encourage deposits.

"Banks were indifferent to margins," says Mr Henrot. "It is only in the last three or four years that they have developed credit-scoring and modern management tools, and distinguished between profits and market share. It is difficult now to reconstruct normal margins."

And Mr Artus at the Caisse des Dépôts believes the banks have failed to levy adequate charges for their services.

In spite of such criticisms, there are signs that the government is increasingly sympathetic towards the claims of the commercial banks. Last autumn it replaced the PAP scheme, a programme that provides home loans for those on low incomes over which Crédit Foncier de France held a near monopoly, with a zero-interest loan available through all banks. This spring, it introduced a rival to the Livret A for young people which all banks can offer.

Senior civil servants are now discussing changes to the rules for holding notaries' deposits, as well as considering ways to force mutual banks to set targets for return on equity. Mr Trichet's comments suggest there is high-level support for such reforms.

The mutual sector, sensing a threat, is reasserting its claim to be an important contributor to French welfare. Last week Crédit Agricole announced a FFr400m aid package to farmers suffering from the crisis over BSE, or mad cow disease. Caisse d'Epargne said recently it planned to distribute some of its profits to worthy causes as a "social dividend".

And while the government debates regulatory changes, market forces are already causing a shake-up in the financial sector. Foreign banks are circling some of the more profitable French institutions: Sovac, the specialist credit group, was bought by General Electric of the US last year, for instance.

French banks, meanwhile, discouraged by the gloomy domestic market, are themselves looking abroad. Crédit Agricole is diversifying internationally and into investment banking by acquiring control of Banque Indosuez from Paribas. And Crédit Local de France, the public-sector lender, is forming an alliance with Crédit Communal de Belgique, a Belgian counterpart, which is likely to lead to a merger.

As Mr Trichet said at the end of last week, the primary responsibility for improving profitability of the French banking sector lies with the commercial banks themselves. In the present climate, that can only mean further cost-cutting and a closer look at mergers.

· OBSERVER ·

Send in the marines

■ It has taken Ricardo Perez Casado barely three months to decide he is not the man to run the divided Bosnian city of Mostar.

The former mayor of Valencia always looked an odd choice for one of the toughest and most dangerous foreign policy jobs in the European Union. His predecessor Hans Koschnik, ex-mayor of Bremen, stuck it out for more than 18 months, despite receiving a rocket-propelled grenade through his window.

When Koschnik finally called it quits, someone thought it was a good idea to give the Spanish a shot at a high-profile external affairs job – even more so because Britain and France had cut Spain out of the diplomatic action on former Yugoslavia when they created the Contact Group along with Germany, Russia and the US.

Perez Casado was criticised by both Croat and Moslem communities for being absent at crucial moments, but his chief achievement was to organise elections last month to unify Mostar. The polls were seen as a test-run for country-wide elections in mid-September, but may simply cement its partition. The biggest challenge for his successor is to stop this happening.

On which note, it is encouraging that Perez Casado's replacement is Sir Martin Garrod, formerly his chief of staff and a one-time head of the British Marine Corps. Garrod knows all about the difficulties of bringing Mostar's Croat and Moslem communities together – fortunate, as the town will probably remain under civilian administration of the EU for another six months.

Atlantik waves

■ A sad end to an unusual meeting of minds that led in 1993 to the creation of one of the Czech Republic's largest stockbrokers. Michael Hobbs, one of three founding partners of Brno-based Atlantik Financial Markets, an independent firm popular with foreign fund managers, has departed following a dispute over "management style".

A 36-year-old American, Hobbs taught finance and economics to his yet younger partners, Daniel Gladiš and Karel Bastl, both Czechs, at Masaryk University in Brno in the early 1990s. Their classroom meeting coincided with the start of mass privatisation and led them to start Atlantik.

Hobbs – who was relieved of his responsibilities at a shareholder meeting held when he was abroad – says he left because of "unwarranted actions" by Gladiš and Bastl. The teacher/student relationship, he adds, had been a problem. His pupils may have resented the extent to which Hobbs kept the gladhanding of clients to himself. The three own an equal share in Atlantik and Hobbs says he has "no plans at this point" to sell his stake separately. Outside investors have been sniffing around since the spring – perhaps the row will hurry things up.

Solly's sally

■ Salomon Brothers was taking no chances yesterday. Newly installed in expensive offices at the foot of Frankfurt's 36-storey Eurotower, the US investment bank was careful to say nothing that could alienate its neighbour at the top – the European Monetary Institute.

Despite the scepticism of Anglo-Saxon clients and colleagues, Daniel Lee, head of Salomon's German operation, said he expected monetary union to happen. "If I made a bet, I would say it will happen – and on time."

That means January 1 1999, a date towards which Salomon's upstairs neighbours are working feverishly. Lee is impressed by the political will behind Emu. At the same time, he warned that, should Emu be delayed a while, foreign funds would flood into Germany and send the D-Mark and European interest rates sky high.

Lee – drawing on long experience in Germany as an army officer and banker – proffered an equally discouraging scenario for the laggardly British. "If the UK does not take part in currency union, this will be a huge disadvantage for London and a big advantage for Frankfurt". EMI ears must have glowed pleasantly.

Prodi's problem?

■ Time for some Italian ministers to rethink state visits to Washington and family holidays in Disneyland, according to Il Sole 24 Ore, the Italian business daily. It warned at the weekend that a strict interpretation of US legislation against investment in Cuba could lead to US borders being closed to government officials and their families.

The problem is that Stet, the state-controlled Italian telecoms company, has an arms-length investment in a Cuban telecoms operator. Stet is controlled by IRI, the state holding company, which is in turn owned by the Italian treasury. White House sources told Il Sole that the link might lead to Romano Prodi, Italy's new prime minister, or Carlo Azeglio Ciampi, the treasury minister, being "treated in the same way as the Cuban president, Fidel Castro" should they cross the US border.

The Italian ambassador in DC has ruled out any such threat, but putting Prodi and Ciampi in the same immigration queue as Castro would have a certain rough justice: Italy's centre-left government does, after all, rely on hammer-and-sickle Marxists of the old school for its parliamentary majority.

The Financial Times

100 years ago

The Motor Carriage Industry
The Hon. J.H.H. Berkeley, Chairman of the Board of the *Britannia Motor Carriage* Company, proposing the toast "Success to the Motor Carriage Industry", said he would like to dispel a few misapprehensions which had arisen with regard to the Britannia motors, and to reply to some criticisms that had been made about them. The most serious point on which they had been taken to task was that they did not at the outset mention the power by which the motor was driven. He would point out that they had issued with the prospectus a detailed drawing of the carriage and the motor. They thought it was evident from the drawing that the motor could only be driven by electricity.

50 years ago

Burmese Currency Separation
The House of Commons will debate to-morrow an Order issued last month providing for the separation of the Burmese currency from the Indian currency. Under this Order the Reserve Bank of India ceases to manage the currency of Burma. The Governor now has full power to issue currency. The notes of the Reserve Bank of India, with the exception of the 1,000 and 10,000 rupee notes, will remain legal tender.

FINANCIAL TIMES
Tuesday July 16 1996

Move would reduce banks' hold over companies

Germany draws up law to allow share buybacks

By Peter Norman in Bonn

The German government is drawing up legislation to allow publicly quoted companies to buy back up to 10 per cent of their capital and to ease the way for companies to reward senior executives with stock options.

The moves, which will help promote the idea of shareholder value in Germany, are part of wide-ranging revisions of the law covering public limited companies which are being prepared in the justice ministry.

Mr Rainer Funke, a junior minister, said yesterday that the legislation would also address long-standing worries about the influence of Germany's banks over companies. In cases where a bank had a significant direct shareholding in a company, it would face restrictions on its freedom to vote shares in the same company that it held on behalf of clients.

The government also plans to bring higher professional standards to the supervisory boards of German companies after recent corporate scandals, such as the bankruptcy of the Bremer Vulkan shipbuilding group and the financial difficulties of the KHD engineering group.

A working group has been preparing legislation for months, with the aim of it becoming law next year. But the schedule is tight. The draft measures will be reviewed by a committee from Chancellor Helmut Kohl's coalition in September before being passed for comment to lobby groups and the Bundesrat, parliament's second chamber.

The bill will be considered by the cabinet in late October or November, with the intention of it passing both houses of parliament before next year.

The plan to liberalise share buy-backs and stock options was added to the bill at a late stage after heavy lobbying by cash-rich industrial groups such as BASF and Bayer, and pro-equity organisations such as the German Share Institute.

Allowing companies to buy back up to 10 per cent of their capital will bring Germany into line with European Union rules. It will also give the bill a sharper focus after the working group rejected proposals for far-reaching restrictions on the banks' influence over business.

However, the ministry is proposing that banks which hold more than 5 per cent of a quoted company directly should not be able to use open-ended proxies provided by other shareholders whose shares are deposited with the banks. This is designed to encourage banks to lower non-bank holdings.

Under the plans, banks would have to seek specific instructions on how to use the voting rights at each meeting from the individual shareholders who have entrusted them with the custody of their investments. The ministry also wants banks to disclose holdings of over 5 per cent in non-quoted companies, as well as quoted companies as at present.

Editorial Comment, Page 17

Jobless levels to stay high, says OECD

By Robert Taylor in London

Unemployment in the world's main industrialised countries will remain high for at least the next two years, the Organisation for Economic Co-operation and Development forecasts.

The Paris-based organisation also warns that growing inequalities in earnings – especially in the US and the UK – will lead to "more marginalisation" of people and add to pressure on welfare budgets.

In its annual employment outlook published yesterday, the OECD forecasts that 7.7 per cent of the industrialised world's workforce – or 33.8m people – will be registered jobless this year. This is up from 7.6 per cent last year, although the rate is expected to fall back to 7.6 per cent again next year.

However, the OECD believes unemployment will stabilise in Germany at 10.3 per cent this year and 10.4 per cent next year, and in France at 12.1 per cent and 12.2 per cent respectively. A slight increase is forecast for the US, up from 7.4 per cent this year to 7.5 per cent in 1997, while in the UK, it is expected to fall from 7.9 per cent to 7.5 per cent.

Unit labour costs in OECD countries are expected to rise 2.3 per cent this year, though the rate is forecast to fall to 1.9 per cent in 1997. Wage increases are expected to decline from 3.8 per cent to 3.7 per cent during the same period.

The study is critical of the US and the UK, countries where it says there has been a "persistent and large rise in earnings inequality" due to "substantial labour and product market reforms" over the past 10 years.

"The UK stands out for the constancy of the rise in inequality over the past two recessions," the OECD says. It also found ¼ of all full-time US workers earn less than ⅔ of the median earnings, compared with 7 per cent in Belgium, Finland and Sweden.

By contrast, earnings inequalities have narrowed over the same period in Canada, Finland and Germany, the OECD says.

But the report also points out there is considerable mobility in earnings. About ⅓ of all workers in all OECD countries were in a different earnings bracket in 1991 than they were in 1986, while between 11 to 17 per cent were at least two levels higher or lower than they had been.

The study found some low-paid workers had remained in low-pay jobs over five years but the share varied between 6 per cent in Denmark to 34 per cent in the US.

"Countries (such as the UK and the US) with high cross-sectional earnings inequality tend to have lower upward mobility among low-paid workers," it says.

Employment Outlook from OECD, 2 Rue Andre-Pascal, 757775 Paris, France. $60.00 or £39.00.

UK opposition attacks Tory stance on Ulster marches

By John Kampfner in London and John Murray Brown in Belfast

The bipartisan approach of the leading British political parties to the Northern Ireland problem was stretched to the limits last night.

The opposition Labour party strongly criticised the government's refusal to condemn Unionist politicians for last week's Orange march which led to widespread violence.

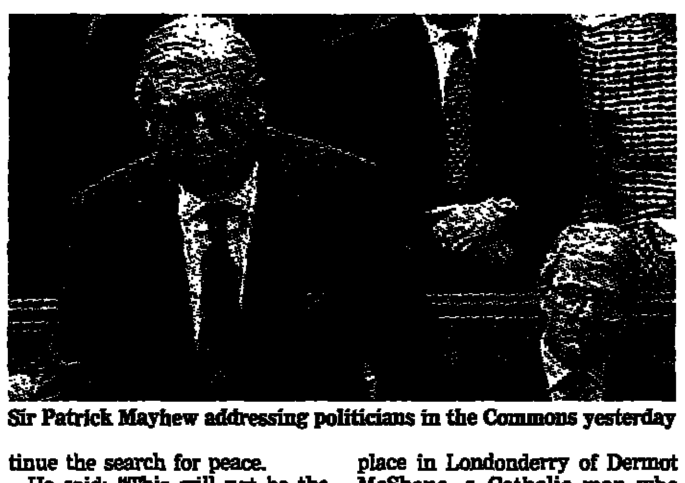
"There is considerable strain in our relations which won't be helped if they don't move quickly," a senior Labour MP said yesterday.

Opposition criticism of the government's handling of the crisis was compounded when Sir Patrick Mayhew, the British minister responsible for Northern Ireland, gave only sketchy details of a review of policing of sectarian marches.

Labour officials said they expected ministers to make more vigorous attempts to calm the nationalist community in Northern Ireland following the police's decision to allow Orangemen to march past a Catholic estate last Thursday.

In another sign of growing polarisation in the British parliament, Sir Patrick was urged by Conservative rightwingers to drop attempts at finding new political arrangements for the province.

But Mr John Major, the UK prime minister, made an impassioned plea to Unionist and nationalist politicians to put the "bad week behind us" and continue the search for peace.



Sir Patrick Mayhew addressing politicians in the Commons yesterday

He said: "This will not be the only setback. Something will happen again that will upset one community or the other, that I can firmly be certain of. But if it does, then we will try again."

Meanwhile, government ministers expressed relief at the detention of seven men in south London following police raids on suspected IRA safe houses, containing components for up to 36 bombs.

The discovery came little more than a day after the first bomb attack in Northern Ireland since the original IRA ceasefire of August 1994.

Officials said the interception may have foiled a new round of potentially devastating bombs in Britain, with targets believed to include huge gas, electricity and water installations and transport intersections.

With tension still high in the province, police kept watch from side streets as the funeral took place in Londonderry of Dermot McShane, a Catholic man who died in riots in the city on Friday.

Community leaders said they were cautiously optimistic that a decrease in violence on Sunday might suggest that the level of violence may be easing.

Mr John Hume, leader of the moderate nationalist Social Democratic party, chose to attend the funeral rather than Sir Patrick's statement to the Commons. Mr Hume was later in Dublin for talks with the Irish government.

Sir Patrick will meet Mr Dick Spring, the Irish deputy prime minister, in Belfast today when multi-party talks resume.

In a policy reversal, he also acceded to demands by Dublin for a full meeting of the Anglo-Irish intergovernmental conference.

Both governments are likely to focus efforts on keeping the talks going, with little sign of practical progress.

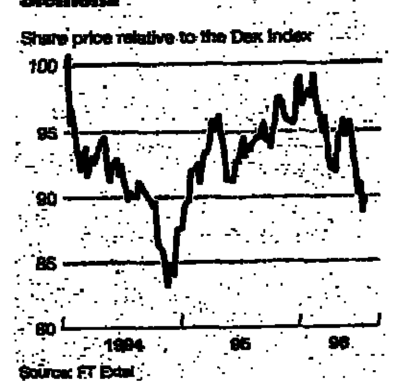
THE LEX COLUMN

Solid Siemens

Siemens is trumpeting profits growth of 20 per cent this year, but investors should not get too excited. Virtually all the improvement will come from a huge drop in restructuring charges, lower pension provisions and more favourable currency translation. That is not to deny that Siemens is performing well, at least in parts. Yesterday's nine-month figures suggest the German behemoth is surviving the fallout in semiconductor markets better than nifty US rivals like Motorola; and its Siemens Nixdorf unit has been gobbling up market share in personal computers – it now has the dubious accolade of being Europe's biggest PC producer. But the group's performance as a whole is still lacklustre. Operating margins are a mere 4 per cent and the return on equity is in single figures against a self-declared target of 15 per cent.

The management's attempts to improve this have been only partly successful. Siemens' restructuring programme will have lopped DM20bn ($13bn) – over 20 per cent – off the cost base by the end of this year. But most of that has been lost as prices have fallen in everything from memory chips to power plants. Siemens also remains too dependent on manufacturing in high-cost Germany. But the biggest problem is that half the annual DM93bn turnover comes from mature, low-tech businesses like power plants, rail equipment and capital goods. Until the management signals a willingness to consider a demerger of those activities from the sexier telecoms, semiconductors and computer operations, the shares deserve to trade at a discount to the German market.

FT-SE Eurotrack 200: 1708.6 (-7.3)



BAT Industries

BAT Industries' latest tinkering with its financial services business may be designed to show active management at work, but it demonstrates how little has been done so far. In its defence from the hostile takeover bid in 1989, BAT put forward financial services as an area which it would build up internationally. If anything, it is now weaker. Farmers, its US insurance business, has taken hits from natural disasters, while Allied Dunbar was hurt by industry-wide investigations into pensions mis-selling. On top of that, BAT has failed to launch any deals to build critical mass in insurance, or substantially expand distribution in UK financial services.

At least recent management changes in financial services have sparked greater enthusiasm for rationalising the existing brand portfolio – but the changes are hardly revolutionary. BAT still needs either to concentrate more on existing strengths or to develop through acquisition. At least the Royal/Sun Alliance merger may persuade some smaller competitors of the difficulties of independence, offering acquisition opportunities. But the merger has also pushed up insurance valuations, and BAT has proven extremely parsimonious.

The price of failure to improve financial services' profits will be increasing pressure to demerge it. There is no logic to a link-up with tobacco, other than cheaper debt. And while BAT offers no meaningful discount to its break-up value, if financial services starts getting left behind by its competitors there will be a convincing management argument for a split.

UK accounting

Few authors have popularised the arcane world of accounting as successfully as Mr Terry Smith, UBS's former head of UK research. Back in 1992, his notorious "blob guide" identified a dozen ruses used to inflate reported profits and named the companies which employed them most. Four years on, as the second edition of Mr Smith's *Accounting for Growth* is about to be published, the state of British accounting is much improved: the Accounting Standards Board has closed, or is in the process of closing, most of the loopholes Mr Smith highlighted.

But what about the companies that figured prominently in Mr Smith's blob guide? Some, like Grand Metropolitan and Trafalgar House, have been disappointing investments. But others, like British Aerospace and Granada, have been phenomenal successes. Indeed, anybody who had bought shares in just those companies which used seven or more of the ruses Mr Smith identified would have done rather well. Since the book was published, such a portfolio would have risen 116 per cent – outperforming the market by 30 per cent.

The blob guide was, of course, never intended as a simple method for picking stocks. It was designed to make investors think by sowing scepticism about the figures companies report. Mr Smith especially wanted to wean shareholders from their fixation on earnings per share as the only measure of corporate success and look at yardsticks like cash flow and return on investment as well. Despite everything the ASB has done in recent years, Mr Smith's broader purpose remains as valid today as ever.

Coca-Cola

The relentless growth of Coca-Cola may offer few surprises for investors given the recent performance of its shares, but it must be a source of considerable consternation for competitors. In the first half of 1996, PepsiCo turned its international brand blue in an eruption of showbiz-style marketing, while the UK's Cadbury Schweppes revamped its Seven-Up brand. The early signs are not promising. Sprite, Seven-Up's rival, was the fastest growing soft drink in North America in the first half of the year and unit growth is accelerating. Meanwhile, the Coca-Cola brand is achieving substantial growth in blue Pepsi's new hunting grounds outside the US. Given Coca-Cola's recent investment in beefing up distribution, and in marketing via the Olympic games, life is not going to get any easier for its rivals.

Investment bankers

Is luring an investment banker from a rival firm poaching? Or is it merely the operation of the free market? It rather depends on one's perspective. ING Barings, whose staff has been raided by Deutsche Morgan Grenfell in recent months, clearly considers itself a victim of poaching. But, with the two groups on the point of agreeing a freeze on poaching each other's employees, investment bankers could consider themselves victims of a restraint of trade. After all, it is precisely the competitive bidding for bankers' services which has driven up their remuneration to such stratospheric levels. Still, do not shed a tear for the world's investment bankers too quickly: other banks are most unlikely to copy ING and DMG; and even their poaching freeze is only temporary.

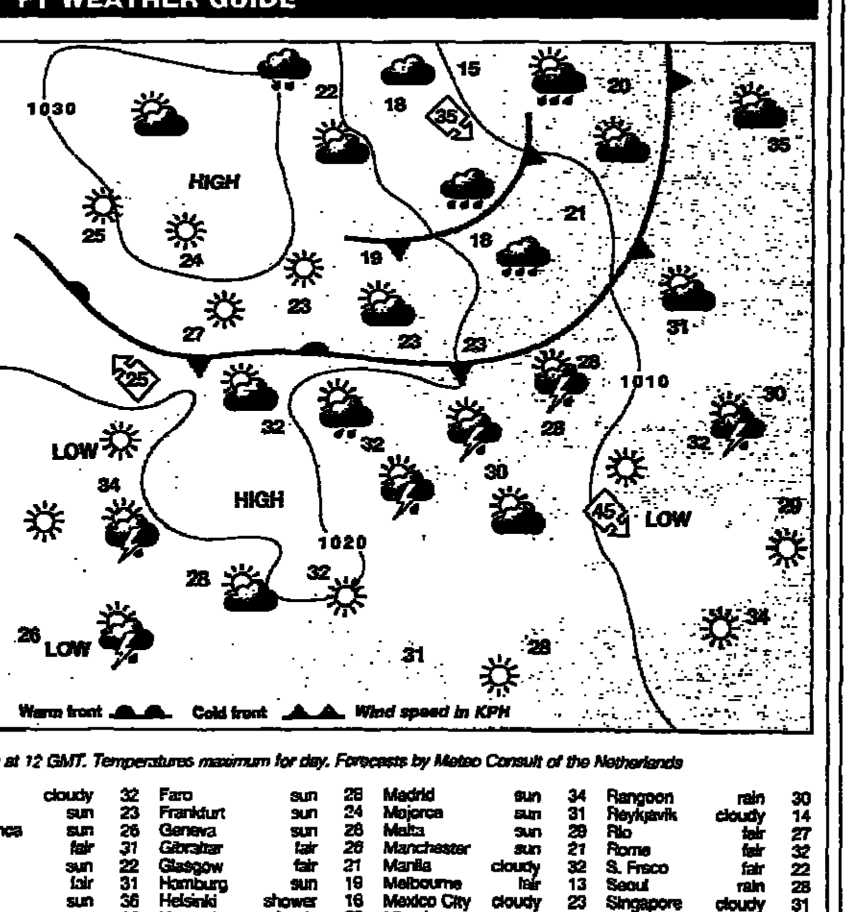
FT WEATHER GUIDE

Europe today

High pressure over the British Isles will bring sunny conditions to most of north-western Europe. The Benelux and Germany will have sunny spells. Northerly winds blowing inland from the North Sea will keep temperatures moderate. An old cold front in the Alps will separate cool air from warmer and more humid air in the Mediterranean region. Afternoon thunder showers will occur in southern Spain, Italy, the Balkan states, and Turkey where temperatures will reach tropical levels. The highest temperatures will occur in southern Spain and south-eastern Turkey. Scandinavia will be cool and unsettled and showers can be expected, especially along the Norwegian coast.

Five-day forecast

High pressure over the North Sea will gradually move eastwards. A cold northerly wind will shift to the east causing temperatures in the Benelux to rise to 25C. By the weekend, a frontal system from the west will trigger thunder showers over western Europe. Southern Europe will be sunny and dry. Thunder showers are possible along Spain's Costas and the Riviera. Poland and the Baltic states will be unsettled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	cloudy	29	Caracas	cloudy	32	Faro	sun	28	Madrid	sun	34	Rangoon	rain	30
	Celsius		Belfast	fair	22	Cardiff	sun	23	Frankfurt	sun	24	Majorca	sun	31	Reykjavik	cloudy	14
Abu Dhabi	sun	40	Belgrade	thund	26	Casablanca	sun	26	Geneva	sun	26	Malta	sun	29	Rio	fair	27
Accra	fair	27	Berlin	fair	19	Chicago	fair	31	Gibraltar	fair	26	Manchester	sun	21	Rome	fair	32
Algiers	fair	29	Bermuda	fair	28	Cologne	sun	22	Glasgow	fair	21	Manila	cloudy	32	S. Frsco	fair	22
Amsterdam	sun	20	Bogota	cloudy	18	Dakar	fair	31	Hamburg	sun	19	Melbourne	fair	13	Seoul	rain	28
Athens	sun	33	Bombay	rain	30	Dallas	sun	36	Helsinki	shower	16	Mexico City	cloudy	23	Singapore	cloudy	31
Atlanta	fair	32	Brussels	sun	21	Delhi	rain	37	Hong Kong	cloudy	32	Miami	thund	32	Stockholm	fair	18
B. Aires	sun	9	Budapest	fair	23	Dubai	sun	42	Honolulu	fair	32	Milan	cloudy	30	Strasbourg	sun	25
B.ham	sun	23	C.hagen	sun	19	Dublin	sun	22	Istanbul	sun	31	Montreal	thund	27	Sydney	sun	16
Bangkok	thund	35	Cairo	sun	34	Dubrovnik	thund	28	Jakarta	cloudy	31	Moscow	cloudy	20	Tangier	sun	29
Barcelona	fair	27	Cape Town	cloudy	13	Edinburgh	fair	20	Jersey	sun	18	Munich	fair	22	Tel Aviv	fair	32
									Karachi	sun	35	Nairobi	cloudy	23	Tokyo	cloudy	30
									Kuwait	sun	47	Naples	thund	30	Toronto	fair	27
									L. Angeles	fair	25	Nassau	thund	32	Vancouver	fair	23
									Las Palmas	sun	26	New York	fair	32	Venice	shower	28
									Lima	cloudy	18	Nice	sun	30	Vienna	fair	23
									Lisbon	sun	33	Nicosia	sun	36	Warsaw	shower	19
									London	sun	24	Oslo	fair	21	Washington	fair	33
									Lux.bourg	sun	23	Paris	sun	27	Wellington	rain	11
									Lyon	fair	28	Perth	windy	17	Winnipeg	fair	29
									Madeira	sun	26	Prague	fair	20	Zurich	fair	24